NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON

$12,000,000*
SMITH COUNTY, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2018

Bids Due Monday, May 14, 2018 at 11:30 AM, CDT

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING . . . Smith County, Texas (the "County"), is offering for sale its $12,000,000* General Obligation Bonds, Series 2018 (the "Bonds"). Bids may be submitted by either of three alternative procedures: (i) written bids; (ii) electronic bids; or (iii) telephone or facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the County nor its Financial Advisor, Specialized Public Finance Inc., assumes any responsibility or liability for a prospective bidding procedure.

The County and Specialized Public Finance Inc. assume no responsibility or liability with respect to any irregularities associated with the submission of electronic, telephone or facsimile bids.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System ("PARITY").

WRITTEN BIDS DELIVERED IN PERSON . . . Signed bids, plainly marked "Bid for Bonds", should be addressed to "County Judge and County Commissioners of Smith County, Texas," and delivered to the County's Financial Advisor, Specialized Public Finance Inc. at 4925 Greenville Avenue, Suite 1350, Dallas, Texas 75206 by 11:30 AM, CDT on May 14, 2018 (the "date of the bid opening"). All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Bidders must submit, by 11:30 AM on the date of the bid opening, SIGNED Official Bid Forms to Steven Adams, Specialized Public Finance Inc., 4925 Greenville Avenue, Suite 1350, Dallas, Texas 75206. Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The County will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in the Notice of Sale, and shall be binding upon the bidder as if made by a signed bid delivered to the County. The County shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder.

If any provisions of the Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support, 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the County, as described under "Basis of Award" below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and the Official Bid Form.

BIDS BY TELEPHONE OR FACSIMILE . . . Bidders must submit SIGNED Official Bid Forms to Steven Adams, Specialized Public Finance Inc., 4925 Greenville Avenue, Suite 1350, Dallas, Texas 75206, and submit their bid by telephone or facsimile (fax) on the date of the bid opening.

Telephone bids will be accepted at (214) 373-3911, between 11:00 AM and 11:30 AM, CDT on the date of the bid opening.

Fax bids must be received between 11:00 AM and 11:30 AM, CDT, on the date of the bid opening at (214) 373-3913, attention Steven Adams.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the above deadlines.

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*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

Specialized Public Finance Inc. assumes no responsibility or liability with respect to any irregularities associated with the submission of bids if telephone or fax options are exercised.

PLACE AND TIME OF BID OPENING . . . The bids for the Bonds will be publicly opened and read in the office of the Financial Advisor at 11:30 AM, CDT, Monday, May 14, 2018.

AWARD OF THE BONDS . . . The Commissioners Court will take action to award the Bonds (or reject all bids) at a meeting scheduled to convene at 9:30 AM, CDT, on Tuesday, May 15, 2018. Upon awarding the Bonds, the County will also adopt the order authorizing the Bonds (the "Order") and will approve the Official Statement, which will be a finalized form of the Preliminary Official Statement to include the terms of pricing. Sale of the Bonds will be made subject to the terms, conditions and provisions of the Order to which Order reference is hereby made for all purposes. The County reserves the right to reject any and all bids and to waive any and all irregularities, except time of filing.

WITHDRAWAL OF THE BIDS . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for ten hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

EXTENSION OF SALE DATE . . . The County reserves the right to extend the date and/or time for the receipt of bids by giving notice by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, CDT on Friday, May 11, 2018 of the new date and time of receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

THE BONDS

DESCRIPTION . . . The Bonds will be dated May 15, 2018 (the "Dated Date"). Interest will accrue from the date of initial delivery of the Bonds and will be due on February 15, 2019, and each August 15 and February 15 thereafter until maturity. The Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity. The Bonds will mature on February 15 in each year as follows:

MATURITY SCHEDULE*

February 15 Maturity	Principal Amount
2019	$ 1,760,000
2020	830,000
2021	145,000
2022	155,000
2023	1,415,000
2024	1,450,000
2025	1,490,000
2026	1,540,000
2027	1,585,000
2028	1,630,000

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

NO REDEMPTION . . . The Bonds are not subject to redemption prior to their stated maturity.

SERIAL BONDS AND/OR TERM BONDS . . . Bidders may provide that all of the Bonds be issued as serial Bonds or may provide that any two or more consecutive annual principal amounts be combined into one or more term Bonds.

BOOK-ENTRY-ONLY SYSTEM . . . The County intends to utilize the book-entry-only system of The Depository Trust Company ("DTC"). See "THE BONDS – BOOK-ENTRY-ONLY SYSTEM" in the Official Statement.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be ZB, National Association, dba Amegy Bank, Houston, Texas. See "THE BONDS – PAYING AGENT/REGISTRAR" in the Official Statement.

SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the County payable from the levy and collection of a direct and continuing ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the County, as provided in the Bond Order.

Further details regarding the Bonds are set forth in the Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES. . . The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than 101% and not greater than 107%. Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 3% in rate. The high bidder will be required to submit reoffering yields and dollar prices prior to award. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Bonds of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

ADVANCE MODIFICATION OF PRINCIPAL AMOUNTS . . . The Maturity Schedule for the Bonds set forth above represents an estimate of the principal amount of Bonds to be sold. The County hereby reserves the right to change the Maturity Schedule, based on market conditions prior to the sale. In the event that the County elects to change the Maturity Schedule prior to the sale it will provide notice to potential bidders through Parity. Such notice shall be considered an amendment to this Notice of Sale and Bidding Instructions.

POST BID MODIFICATION OF PRINCIPAL AMOUNTS . . . After selecting the winning bid, the aggregate principal amount of the Bonds and the principal amortization schedule may be adjusted as determined by the County and its Financial Advisor in $5,000 increments to reflect the actual interest rates and to create a substantially level debt service schedule for the County. Such adjustments will not change the aggregate principal amount of the Bonds by more than 15% from the amount set forth herein. The dollar amount bid for the Bonds by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Bonds finally determined to be issued. The County will use its best efforts to communicate to the winning bidder any such adjustment within four (4) hours after the opening of bids. Purchaser's compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Bonds as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. The bid price for such an adjustment will reflect changes in the dollar amount of par amount of the Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the initial reoffering terms. Any such adjustment of the aggregate principal amount of the Bonds and/or the maturity schedule for the Bonds made by the County or its Financial Advisor shall be subsequent to the award of the Bonds to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE – BASIS OF AWARD" herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

BASIS FOR AWARD . . . Subject to the County's right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Bonds will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the "Bond Purchaser") making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the County. The True Interest Cost rate is that rate which, when used to compute the total present value as of the date of initial delivery of all debt service payments on the Bonds on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Bonds. In the event of a bidder's error in interest cost rate calculations, the interest rates and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the County with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Bond Purchaser will be required to provide the County with a breakdown of its "underwriting spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

ESTABLISHING THE ISSUE PRICE FOR THE BONDS . . . The County intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which require, among other things, that the County receives bids from **at least three underwriters** of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds **(the "Competitive Sale Requirement")**.

In the event that the bidding process does not satisfy the Competitive Sale Requirement, Bids **will not be subject to cancellation** and the winning bidder (i) agrees to promptly report to the County the first prices at which at least 10% of each maturity of the Bonds **(the "First Price Maturity")** have been sold to the Public on the Sale Date **(the "10% Test")** (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test) and (ii) agrees to hold-the-offering-price of each maturity of the Bonds that does not satisfy the 10% Test **("Hold-the-Price Maturity")**, as described below.

In order to provide the County with information that enables it to comply with the establishment of the issue price of the Bonds under the Internal Revenue Code of 1986, as amended, the winning bidder agrees to complete, execute, and timely deliver to the County or to the County's bond counsel the appropriate certification as to the Bonds' "issue price" (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions, at least 5 business days before the Closing Date if the Competitive Sale Requirement is satisfied or within 5 business days of the date on which the 10% Test is satisfied with respect to all of the First Price Maturities. In the event the winning bidder will not reoffer any maturity of the Bonds for sale to the Public (as defined herein) by the Closing Date, the Issue Price Certificate may be modified in a manner approved by the County. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale and Bidding Instructions:

(i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party,

(ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the County (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public),

(iii) "Related Party" means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "Sale Date" means the date that the Bonds are awarded by the County to the winning bidder.

All actions to be taken by the County under this Notice of Sale and Bidding Instructions to establish the issue price of the Bonds may be taken on behalf of the County by the County's Financial Advisor, and any notice or report to be provided to the County may be provided to the County's Financial Advisor.

The County will consider any bid submitted pursuant to this Notice of Sale and Bidding Instructions to be a firm offer for the purchase of the Bonds, as specified in the bid and, if so stated, in the Official Bid Form.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wire.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Bonds, that each Underwriter will neither offer nor sell any Hold-the-Price Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of (1) the close of the fifth (5th) business day after the Sale Date; or (2) the date on which the Underwriters have sold at least 10% of that Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public. The winning bidder shall promptly advise the County when the Underwriters have sold 10% of a Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

PROVISION OF TEXAS ETHICS COMMISSION FORM 1295 ("TEC FORM 1295") . . . In accordance with Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the County may not award the Bonds to a bidder unless the winning bidder either:

(i) submits a Certificate of Interested Parties Form 1295 (the "TEC Form 1295") to the County as prescribed by the Texas Ethics Commission ("TEC"), or

(ii) certifies in the Official Bid Form that it is exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

In the event that the bidder's bid for the Bonds is the best bid received, the County, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the County's conditional verbal acceptance of the bid, and, unless the bidder is exempt from filing a TEC Form 1295, such notification will obligate the winning bidder to promptly file a completed TEC Form 1295, as described below, in order to allow the County to complete the award. The County reserves the right to reject any bid that does not comply with the requirements prescribed herein.

For purposes of completing the TEC Form 1295, box 2 is name of the governmental entity (*Smith County, Texas*) and box 3 is the identification number assigned to this contract by the County **(Smith Co GO 2018)** and description of the goods or services (*Purchase of the Smith County General Obligation Bonds, Series 2018*). **The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require certain business entities contracting with the County to complete the TEC Form 1295 electronically at https://www.ethics.state.tx.us/main/file.htm, print, complete the unsworn declaration, sign, and deliver, in physical form, the certified TEC Form 1295 that is generated by the TEC's "electronic portal" to the County. The completed and signed TEC Form 1295 must be sent by email, to the County's financial advisor at steven@spfmuni.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award.** Upon receipt of the final written award, the winning bidder must submit the TEC Form 1295 with original signatures by email to Bond Counsel as follows: jgulbas@mphlegal.com.

To the extent that the bidder is not exempt from filing a TEC Form 1295 and therefor makes such filing with the County, the Interested Party Disclosure Act and the TEC 1295 provide that such declaration is made "under oath and under penalty of perjury." Consequently, a bidder should take appropriate steps prior to completion of the TEC Form 1295 to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the TEC Form 1295. **Time will be of the essence in submitting the form to the County, and no final award will be made by the County regarding the sale of the Bonds until a completed TEC Form 1295 is received. The County reserves the right to reject any bid that does not satisfy the requirement of a completed TEC Form 1295, as described herein.** Neither the County nor its consultants have the ability to verify the information included in a TEC Form 1295, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the TEC Form 1295. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the County that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

COMPLIANCE WITH LAW PROHIBITING CONTRACTS WITH COMPANIES THAT BOYCOTT ISRAEL AND CERTAIN COMPANIES ENGAGED IN BUSINESS WITH IRAN, SUDAN OR FOREIGN TERRORIST ORGANIZATIONS . . . Pursuant to Chapter 2270, Texas Government Code, the County will not award the Bonds to a bidder unless the bidder verifies that, at the time of execution and delivery of its bid and, except to the extent otherwise required by applicable federal law, to the date of the delivery of the Bonds, neither the bidder nor any syndicate member listed on the Official Bid Form, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the same, boycotts or will boycott Israel. The terms "boycotts Israel" and "boycott Israel" as used in this paragraph have the meanings assigned to the term "boycott Israel" in Section 808.001 of the Texas Government Code, as amended. Such verification is included in the Official Bid Form attached to this Notice of Sale. Further, by submission of a bid, and as a condition of the award and delivery of the Bonds, the bidder must represents that, pursuant to Section 2252.152 of the Texas Government Code, and except to the extent otherwise required or permitted by or under federal law, neither the bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the bidder (i) engages in business with Iran, Sudan, or foreign terrorist organization as defined in Section 2252.151(2), Texas Government Code or (ii) is a company listed by the Texas Comptroller of Public Accounts under Sections 2270.0201 or 2252.153 of the Texas Government Code. At the request of the County, the bidder agrees to execute further written certification as may be necessary or convenient for the County to establish compliance with these laws.

IMPACT OF BIDDING SYNDICATE ON AWARD . . . For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the County is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

GOOD FAITH DEPOSIT . . . The winning bidder will be required to provide a deposit in the amount of $240,000 to the County as bid security by 5:00 p.m. CDT on May 14, 2018. The bid security may be provided to the County (i) via wire transfer (the County or its financial advisor, Specialized Public Finance Inc., will provide wire instructions to the winning bidder), or (ii) in the form of a certified or cashier's check made payable to the order of County in the amount of the deposit set forth above. The wire option will be retained by the County and: (a) will be applied, without allowance for interest, against the purchase price when the Bonds are delivered to and paid for by such winning bidder or (b) will be retained by the County as liquidated damages if the winning bidder defaults with respect to the terms of its bid or (c) will be returned to the winning bidder if the Bonds are not issued by the County for any reason which does not constitute a default by the winning bidder. If the check option is utilized, the check will be (a) returned uncashed to the winning bidder when the Bonds are delivered to and paid for by such winning bidder, (b) cashed by the County as liquidated damages if the winning bidder defaults with respect to the terms of its bid or (c) returned uncashed to the winning bidder if the Bonds are not issued by the County for any reason which does not constitute a default by the winning bidder.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

CUSIP NUMBERS . . . It is anticipated that CUSIP identification numbers will appear on the Bonds, but neither the failure to print or type such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Bond Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale. CUSIP identification numbers will be made available to the Bond Purchaser at the time the Bonds are awarded or as soon thereafter as practicable. All expenses in relation to the assignment, printing or typing of CUSIP numbers on the Bonds shall be paid by the County.

DELIVERY OF BONDS . . . Delivery will be accomplished by the issuance of one Initial Bond (also called the "Bond" or "Bonds"), either in typed or printed form, in the aggregate principal amount of $12,000,000*, payable in stated installments to the Bond Purchaser, signed by the County Judge, and County Treasurer or County Clerk, approved by the Attorney General of Texas, and registered and manually signed by the Texas Comptroller of Public Accounts. Upon delivery of the Initial Bond, it shall be immediately cancelled and one definitive Bond for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC's book-entry-only system. Delivery will be at a principal office of the Paying Agent/Registrar. Payment for the Bonds must be made in immediately available funds for unconditional credit to the County, or as otherwise directed by the County. The Bond Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery of the Bonds can be made on or about June 12, 2018, and it is understood and agreed that the Bond Purchaser will accept delivery and make payment for the Bonds by 10:00 AM, CDT, on June 12, 2018, or thereafter on the date the Bond is tendered for delivery, up to and including June 26, 2018. If for any reason the County is unable to make delivery on or before June 26, 2018, the County shall immediately contact the Bond Purchaser and offer to allow the Bond Purchaser to extend its offer for an additional thirty days. If the Bond Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the County and the Bond Purchaser shall be relieved of any further obligation. In no event shall the County be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the County's reasonable control.

CONDITIONS TO DELIVERY . . . The obligation of the Bond Purchaser to take up and pay for the Bonds is subject to the Bond Purchaser's receipt of (a) the legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel for the County ("Bond Counsel") and (b) the no-litigation certificate, all as further described in the Official Statement. In order to provide the County with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating to the exemption of interest on the Bonds from the gross income of their owners, the Bond Purchaser will be required to complete, execute, and deliver to the County (no later than the close of business on the business day following the award of the bid) a certification as to their "issue price" substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions. In the event the successful bidder will not reoffer the Bonds for sale, such certificate may be modified in a manner approved by the County. In no event will the County fail to deliver the Bonds as a result of the Bond Purchaser's inability to sell a substantial amount of the Bonds at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate not later than the close of business on the business day following the award of the bid, if its bid is accepted by the County. It will be the responsibility of the Bond Purchaser to institute such syndicate reporting requirements to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

LEGAL OPINION . . . The Bonds are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Bonds is subject to the receipt by the Bond Purchaser of opinions of Bond Counsel, to the effect that the Bonds are valid and binding obligations of the County (except as the enforceability may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by principles of equity which permit the exercise of judicial discretion) and that the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" in the Official Statement.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the County to deliver the Bonds and of the Bond Purchaser to accept delivery of and pay for the Bonds are subject to the condition that at the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition of the County from those set forth in or contemplated by the "Preliminary Official Statement" as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE . . . On the date of delivery of the Bonds to the Bond Purchaser, the County will deliver to the Bond Purchaser a certificate, as of the same date, to the effect that to the best of the County's knowledge no litigation of any nature is pending or, to the best of the certifying officials' knowledge or belief, threatened against the County, contesting or affecting the Bonds; restraining or enjoining the authorization, execution, or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officials of the County.

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*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

GENERAL

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the County in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

BLUE SKY LAWS . . . By submission of its bid, the Bond Purchaser represents that the sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Bond Purchaser will register the Bonds in accordance with the securities law of the states in which the Bonds are offered or sold. The County agrees to cooperate with the Bond Purchaser, at the Bond Purchaser's written request and expense, in registering the Bonds or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the County shall not be obligated to execute a general or special consent to service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Bonds, but is merely notice of the sale of the Bonds. The offer to sell the Bonds is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Bonds.

ISSUANCE OF ADDITIONAL DEBT . . . The County anticipates the issuance of approximately $12,000,000 general obligation debt within the next twelve months.

RATING . . . The Bonds are rated "AA+" by S&P Global Ratings ("S&P"). The outstanding uninsured general obligation debt of the County is rated "AA+" by S&P and "Aa2" by Moody's Investors Service ("Moody's"). No application has been made to Moody's for a rating on the Bonds.

THE OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12 . . . The County has prepared the accompanying Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12, deems such Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the best knowledge and belief of the County, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds. Representations made and to be made by the County concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Official Statement.

The County will furnish to the Bond Purchaser, acting through a designated senior representative, in accordance with instructions received from the Bond Purchaser, within seven (7) business days from the sale date copies of the Official Statement reflecting interest rates and other terms relating to the initial reoffering of the Bonds. The cost of any Official Statement in excess of the number specified shall be prepared and distributed at the cost of the Bond Purchaser. The Bond Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award. Except as noted above, the County assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement in connection with the offering or reoffering of the subject securities.

CONTINUING DISCLOSURE AGREEMENT . . . The County will agree in the Order to provide certain periodic information and notices of specified events in accordance with Securities and Exchange Commission Rule 15c2-12, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Bond Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Bond Purchaser or its agent of a certified copy of the Order containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the County has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

The County has approved the form and content of the Notice of Sale and Bidding Instructions, the Official Bid Form and Official Statement, and authorized the use thereof in its initial offering of the Bonds. On the date of the sale, the Commissioners Court will, in the Order authorizing the issuance of the Bonds, confirm its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Bonds by the Bond Purchaser.

/s/ Judge Nathaniel Moran
County Judge
Smith County, Texas

ATTEST:
/s/ Karen Phillips
County Clerk
Smith County, Texas
May 7, 2018

OFFICIAL BID FORM

County Judge and County Commissioners
Smith County, Texas
200 E. Ferguson, Suite 100
Tyler, Texas 75702

May 14, 2018

Members of the County Commissioners Court:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated May 7, 2018, of $12,000,000* SMITH COUNTY, TEXAS GENERAL OBLIGATION BONDS, SERIES 2018, both of which constitute a part hereof.

For your legally issued Bonds, in the aggregate principal amount of $12,000,000*, we will pay you a price of $______________________, representing approximately ________% of the par value. Such Bonds mature February 15, in each of the years and in the amounts and interest rates shown below:

Maturity	Principal Amount*	Interest Rate
2/15/2019	$ 1,760,000	%
2/15/2020	830,000	%
2/15/2021	145,000	%
2/15/2022	155,000	%
2/15/2023	1,415,000	%
2/15/2024	1,450,000	%
2/15/2025	1,490,000	%
2/15/2026	1,540,000	%
2/15/2027	1,585,000	%
2/15/2028	1,630,000	%

Of the principal maturities set forth in the table above, term bonds have been created as indicated in the following table (which may include multiple term bonds, one term bond or no term bond if none is indicated). For those years which have been combined into term bonds, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term bond maturity date shall mature in such year. The term bonds created are as follows:

Term Bonds Maturing February 15	Year of First Mandatory Redemption	Principal Amount	Interest Rate
		$	%
		$	%
		$	%
		$	%
		$	%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST ______________________%

The Initial Bond shall be registered in the name of ______________________, which will, upon payment for the Bonds, be cancelled by the Paying Agent/Registrar. The Bonds will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the book-entry-only system.

____

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

A wire transfer or a cashiers or certified check to the County in the amount of $240,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the County as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

We agree to accept delivery of the Bonds utilizing the book-entry-only system through DTC and make payment for the Initial Bond in immediately available funds in the Corporate Trust Division, ZB, National Association, dba Amegy Bank, Houston, Texas, not later than 10:00 AM, CDT, on June 12, 2018, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the purchaser of the Bonds to complete the DTC Eligibility Questionnaire.

The undersigned agrees to complete, execute, and deliver to the County, not later than the close of business on the business day following the award of the sale of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the County.

To the extent this bid for the Bonds represents a contract for goods or services within the meaning of Section 2270.002 of the Texas Government Code, as amended, the undersigned verifies, for purposes of Chapter 2270 of the Texas Government Code, as amended, that at the time of execution and delivery of this bid or, except to the extent otherwise required by applicable federal law, to the date of delivery of the Bonds, neither the undersigned, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the undersigned, boycotts or will boycott Israel. The terms "boycotts Israel" and "boycott Israel" as used in this paragraph have the meanings assigned to the term "boycott Israel" in Section 808.001 of the Texas Government Code, as amended.

By submission of a bid, and as a condition of the award and delivery of the Bonds, the Purchaser represents that, pursuant to Section 2252.152 of the Texas Government Code, and except to the extent otherwise required or permitted by or under federal law, neither the Purchaser, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the Purchaser (i) engages in business with Iran, Sudan, or foreign terrorist organization as defined in Section 2252.151(2), Texas Government Code or (ii) is a company listed by the Texas Comptroller of Public Accounts under Sections 2270.0201 or 2252.153 of the Texas Government Code. At the request of the County, the Purchaser agrees to execute further written certification as may be necessary or convenient for the County to establish compliance with these laws.

The undersigned agrees to complete, execute, and deliver to the County, at least five business days prior to delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the County and Bond Counsel.

The undersigned certifies that the Purchaser [is]/[is not] exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

____
Name of Bond Purchaser or Manager

____
Authorized Representative

____
Phone Number

____
Signature

<u>Please check one of the options below regarding Good Faith Deposit:</u>

Submit by Wire Transfer ☐

Submit by Bank Cashier's/Certified Check ☐

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by Smith County, Texas, this the 15th day of May, 2018.

ATTEST:

____
County Clerk, Smith County, Texas

____
County Judge, Smith County, Texas

ISSUE PRICE CERTIFICATE

(Sales where at least 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the General Obligation Bonds, Series 2018 issued by the Smith County, Texas ("Issuer") in the principal amount of $12,000,000* ("Bonds"), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Bonds by the Purchaser, the Purchaser's reasonably expected initial offering prices of each maturity of the Bonds with the same credit and payment terms (the "Expected Offering Prices") to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Bonds, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Bonds used by the Purchaser in formulating its bid to purchase the Bonds.

(b) The Purchaser had an equal opportunity to bid to purchase the Bonds and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Bonds.

(d) The Purchaser [has] [has not] purchased bond insurance for the Bonds. The bond insurance has been purchased from ________________________________ (the "Insurer") for a fee of $_______ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer's commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm's-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Bonds. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Bonds, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Bonds in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this _______________, 2018.

[NAME OF PURCHASER], as Purchaser

By:____________________________________

Name:__________________________________

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION
(*Attached*)

ISSUE PRICE CERTIFICATE

(**Form of Certificate if less than 3 bids are received from underwriters**)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the General Obligation Bonds, Series 2018 issued by the Smith County, Texas ("Issuer") in the principal amount of $12,000,000* ("Bonds"), hereby certifies and represents, based on its records and information, as follows:

(a) [Other than the Bonds maturing in ____________ ("Hold-the-Price Maturities"), the][The] first prices at which at least ten percent ("Substantial Amount") of the principal amount of each maturity of the Bonds having the same credit and payment terms ("Maturity") was sold to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter ("Public") are their respective initial offering prices, as listed in the pricing wire or equivalent communication for the Bonds that is attached to this Certificate as Schedule A.

(Add (b) and (c) only if winning bidder designates one or more maturities as Hold-the-Price Maturities)

(b) On or before the first day on which there is a binding contract in writing for the sale of the Bonds ("Sale Date"), the Purchaser offered to the Public each Maturity of the Hold-the-Price Maturities at their respective initial offering prices, as set forth in Schedule A hereto ("Initial Offering Price").

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for each such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells at least ten percent of a Hold-the-Price-Maturity of the Bonds to the Public at no higher price than the Initial Offering Price for such Maturity.

(d) The Purchaser [has] [has not] purchased bond insurance for the Bonds. The bond insurance has been purchased from ________________________________ (the "Insurer") for a fee of $_______ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer's commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm's-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Bonds. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Bonds, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Bonds in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this _______________, 2018.

[NAME OF PURCHASER], as Purchaser

By:_____________________________________

Name:___________________________________

____

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION
(*Attached*)

PRELIMINARY OFFICIAL STATEMENT

Dated May 7, 2018

Rating: "AA+"
S&P: Applied For
(See "OTHER INFORMATION - RATING" herein)

NEW ISSUE – BOOK-ENTRY-ONLY

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds, defined below, will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

$12,000,000*
SMITH COUNTY, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2018

Dated Date: May 15, 2018 — **Due: February 15, as shown on the inside cover page**
Interest Accrues from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the $12,000,000* Smith County, Texas, General Obligation Bonds, Series 2018 (the "Bonds") will accrue from the Date of Initial Delivery, defined below, and will be payable February 15 and August 15 of each year commencing February 15, 2019, until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is ZB, National Association, dba Amegy Bank, Houston, Texas (see "THE BONDS – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Article III, Section 52, Texas Constitution, Section 1471.015 and Chapter 1371, Texas Government Code, as amended, an election held within the County on November 7, 2018 (the "Election"), an order adopted by the Commissioners Court of Williamson County, Texas (the "County") and the pricing certificate of the Pricing Officer approving the sale terms of the Bonds as authorized by the order adopted on May 15, 2018 (the "Bond Order"). The Bonds are direct obligations of the County payable from a continuing ad valorem tax levied on all taxable property within the County, legally unlimited as to rate or amount, as provided in the Bond Order (see "THE BONDS – AUTHORITY FOR ISSUANCE" and "THE BONDS – SECURITY AND SOURCE OF PAYMENT").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) constructing, acquiring by purchase, maintenance, and operation of macadamized, graveled, or paved roads, or in aid thereof, including but not limited to, constructing, designing, improving, extending, expanding, upgrading and/or developing roads, including right-of-way acquisition, utility relocation, drainage improvements relating to these road improvements, traffic safety, other safety, and operational improvements, and other transportation related improvements, and (ii) paying the costs of issuing the Bonds. See "THE BONDS – PURPOSE".

CUSIP PREFIX: 832033
MATURITY SCHEDULE, INTEREST RATES, PRICES AND OTHER TERMS
SEE INSIDE FRONT COVER

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchaser (the "Bond Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on June 12, 2018 (the "Date of Initial Delivery").

BIDS DUE ON MONDAY, MAY 14, 2018, BY 11:30 AM, CDT

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*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale. Preliminary, subject to change.

CUSIP Prefix [(1)]: 832033

MATURITY SCHEDULE*

Maturity Date February 15	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix [(1)]
2019	$ 1,760,000			
2020	830,000			
2021	145,000			
2022	155,000			
2023	1,415,000			
2024	1,450,000			
2025	1,490,000			
2026	1,540,000			
2027	1,585,000			
2028	1,630,000			

(Interest Accrues from the Date of Initial Delivery)

____

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale Preliminary, subject to change.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. None of the County, the Financial Advisor or the Bond Purchaser shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

NO REDEMPTION . . . The Bonds are not subject to redemption prior to their stated maturity (see "THE BONDS – No Optional Redemption").

(THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK)

For purposes of compliance with Rule 15c2-12 of the United States Securities Exchange Commission ("SEC"), this document constitutes a Preliminary Official Statement of the County with respect to the Bonds that has been deemed "final" by the County as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the County to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

The information set forth herein has been obtained from the County and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or other matters described.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SEC AND, CONSEQUENTLY, HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE COUNTY NOR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

TABLE OF CONTENTS

The cover and inside cover pages hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE BONDS

THE BONDS .... The $12,000,000* General Obligation Bonds, Series 2018 (the "Bonds") are issued as serial bonds maturing on February 15 in the years 2019 through and including 2028 unless any maturities are designated by the Bond Purchaser as Term Bonds.

PAYMENT OF INTEREST .... Interest on the Bonds will accrue from the respective Date of Initial Delivery and is payable February 15, 2019, and each August 15 and February 15 thereafter until maturity (see "THE BONDS – GENERAL" and "THE BONDS – OPTIONAL REDEMPTION").

AUTHORITY FOR ISSUANCE .... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Article III, Section 52, Texas Constitution, Section 1471.015 and Chapter 1371, Texas Government Code, as amended, an election held within the County on November 7, 2018 (the "Election"), an order adopted by the Commissioners Court of Williamson County, Texas (the "County") and the pricing certificate of the Pricing Officer approving the sale terms of the Bonds as authorized by the order adopted on May 15, 2018 (the "Bond Order"). The Bonds are direct obligations of the County payable from a continuing ad valorem tax levied on all taxable property within the County, legally unlimited as to rate or amount, as provided in the Bond Order (see "THE BONDS – AUTHORITY FOR ISSUANCE" and "THE BONDS – SECURITY AND SOURCE OF PAYMENT").

SECURITY FOR THE BONDS .... The Bonds constitute direct obligations of the County payable from the levy and collection of a direct and continuing ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the County, as provided in the Bond Order.

NO OPTIONAL REDEMPTION .... The Bonds are not subject to redemption prior to their stated maturity (see "THE BONDS – No Optional Redemption").

TAX EXEMPTION............................ In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption "TAX MATTERS" herein.

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used for (i) constructing, acquiring by purchase, maintenance, and operation of macadamized, graveled, or paved roads, or in aid thereof, including but not limited to, constructing, designing, improving, extending, expanding, upgrading and/or developing roads, including right-of-way acquisition, utility relocation, drainage improvements relating to these road improvements, traffic safety, other safety, and operational improvements, and other transportation related improvements, and (ii) paying the costs of issuing the Bonds. See "THE BONDS – PURPOSE".

GENERAL

THE COUNTY .... Smith County, Texas was organized in 1846. The County operates as specified under the Constitution of the State of Texas and statutes which provide for a Commissioner's Court consisting of the County Judge and four Commissioners, one for each of four geographical Commissioners Precincts. The County Judge is elected for a term of four years and the Commissioners for four year staggered terms. Other major County elective officers include the County Clerk, County Tax Assessor-Collector and County Treasurer. The County Auditor is appointed for a term of two years by the State District Judges having jurisdiction in the County (see "COUNTY OFFICIALS, STAFF AND CONSULTANTS").

The County is approximately 932 square miles in area (see APPENDIX A – "GENERAL INFORMATION REGARDING THE COUNTY").

*See "CONDITIONS OF THE SALE – BASIS FOR AWARD" in the Notice of Sale. Preliminary, subject to change.

RATING .... The Bonds are rated "AA+" with a stable outlook by S&P Global Ratings ("S&P"). The outstanding uninsured general obligation debt of the County is rated "AA+" by S&P and "Aa2" by Moody's Investors Service ("Moody's"). No application has been made to Moody's for a rating on the Bonds (see "OTHER INFORMATION – RATING").

BOOK-ENTRY-ONLY SYSTEM......... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS – BOOK-ENTRY-ONLY SYSTEM").

PAYMENT RECORD .... The County has never defaulted on payment of its debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population [(1)]	Taxable Assessed Valuation [(2)]	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita	% of Total Tax Collections
2014	218,842	$ 14,129,361,209	$ 64,564	$ 30,280,000	0.21%	$ 138	99.59%
2015	222,936	14,547,918,813	65,256	26,905,000	0.18%	121	99.81%
2016	225,000	15,167,767,519	67,412	23,465,000	0.15%	104	101.56%
2017	225,290	15,737,795,619	69,856	19,920,000	0.13%	88	101.66%
2018	225,290	16,444,321,130 [(3)]	72,992	28,275,000 [(4)]	0.17%	126	81.95% [(5)]

(1) Source: Smith County Comprehensive Annual Financial Report.
(2) As reported by the Smith County Appraisal District; subject to change during the ensuing year.
(3) The County's 2018/2019 Preliminary Taxable Assessed Valuation as of April 16, 2018 was $17,541,945,729.
(4) Projected; includes the Bonds. Preliminary, subject to change.
(5) Partial collections as of February 28, 2018.

For additional information regarding the County, please contact:

Judge Nathaniel Moran Smith County 200 E. Ferguson, Suite 100 Tyler, Texas 75702 903.591.4600	or	Steven A. Adams, CFA Paul N. Jasin Specialized Public Finance Inc. 4925 Greenville Avenue, Suite 1350 Dallas, Texas 75206 214.373.3911

COUNTY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Name	Title	Term Expires
Nathaniel Moran	County Judge	December, 2018
Jeff Warr	Commissioner Precinct 1	December, 2020
Cary Nix	Commissioner Precinct 2	December, 2018
Terry Phillips	Commissioner Precinct 3	December, 2020
JoAnn Hampton	Commissioner Precinct 4	December, 2018

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service
Karen Phillips	County Clerk	8 Years
Kelli White	County Treasurer	14 Years
Gary Barber	County Tax Assessor-Collector	14 Years
Ann W. Wilson, CPA, CIO	County Auditor	18 Years

CONSULTANTS AND ADVISORS

Auditors .... Gollob Morgan Peddy PC
Tyler, Texas

Bond Counsel .... McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor..Specialized Public Finance Inc.
Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT
RELATING TO

$12,000,000*
SMITH COUNTY, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2018

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the $12,000,000* Smith County, Texas General Obligation Bonds, Series 2018 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order (the "Bond Order"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the County and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the County's Financial Advisor, Specialized Public Finance Inc., Dallas, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the County's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE COUNTY . . . The County was organized in 1846 and operates as specified under the Constitution of the State of Texas (the "State") and statutes which provide for a Commissioner's Court consisting of the County Judge and four Commissioners, one from each of four geographical Commissioner's Precincts. The County Judge is elected for a term of four years and the Commissioners are elected for four year staggered terms. Other major County elected officers include the County Clerk, County Tax Assessor-Collector and County Treasurer. The County Auditor is appointed for a term of two years by the State District Judges having jurisdiction in the County. The County covers approximately 932 square miles. The City of Tyler is the County Seat. For more information regarding the County, see "APPENDIX A – GENERAL INFORMATION REGARDING THE COUNTY."

THE BONDS

GENERAL . . . The Bonds are dated May 15, 2018, and mature on February 15 in each of the years and in the amounts shown on the inside cover page. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable February 15 and August 15 of each year commencing February 15, 2019 until maturity, and will accrue from the Date of Initial Delivery.

The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-only system described herein (the "Book-Entry-Only System"). **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Article III, Section 52, Texas Constitution, Section 1471.015 and Chapter 1371, Texas Government Code, as amended, an election held within the County on November 7, 2018 (the "Election"), an order adopted by the Commissioners Court of Williamson County, Texas (the "County") and the pricing certificate of the Pricing Officer approving the sale terms of the Bonds as authorized by the order adopted on May 15, 2018 (the "Bond Order"). The Bonds are direct obligations of the County payable from a continuing ad valorem tax levied on all taxable property within the County, legally unlimited as to rate or amount, as provided in the Bond Order.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the County payable from the levy and collection of a direct and continuing ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the County, as provided in the Bond Order.

NO OPTIONAL REDEMPTION . . . The Bonds are not subject to optional redemption prior to their stated maturity.

*See "CONDITIONS OF THE SALE – BASIS FOR AWARD." Preliminary, subject to change.

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the County so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the County will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the County or the Paying/Agent Registrar. Neither the County nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

DEFEASANCE . . . *General.* The Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general covenants in the Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding ("Defeased Bond") within the meaning of the Order, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the County to retain the right to call Defeased Bonds to be paid at maturity, when the payment of all principal and interest payable with respect to such Defeased Bonds to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (1) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (2) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or a commercial bank or trust company for such payment (a) lawful money of the United States of America sufficient to make such payment, (b) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the County with the Paying Agent/Registrar for the payment of its services until after all Defeased Bonds shall have become due and payable or (c) any combination of (a) and (b). At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged as provided in the Order, and such principal and interest shall be payable solely from such money or Defeasance Securities and thereafter the County will have no further responsibility with respect to amounts available to such Paying Agent/Registrar (or other financial institution permitted by applicable law) for the payment of such Defeased Bond, including any insufficiency therein caused by the failure of the Paying Agent/Registrar (or other financial institution permitted by law) to receive payment when due on the Defeased Securities.

The deposit under clause (2) above shall be deemed a payment of an Bond when proper notice of redemption of such Bonds shall have been given, in accordance with the Order. Any money so deposited with the Paying Agent/Registrar or a commercial bank or trust company may at the discretion of the County also be invested in Defeasance Securities, as hereinafter defined, maturing in the amounts and at the times as set forth in the Order, and all income from such Defeasance Securities received by the Paying Agent/Registrar or a commercial bank or trust company that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the County.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Order for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar or a commercial bank or trust company shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the County shall make proper arrangements to provide and pay for such services as required by the Order.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or a commercial bank or trust company for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Order shall be made without the consent of the registered owner of each Bond affected thereby.

*Retention of Right*s. To the extent that, upon the defeasance of any Defeased Bonds to be paid at its maturity, the County retains the right under State law to later call any Defeased Bonds which is subject to redemption (i.e. the Bonds) in accordance with the provisions of the Order, the County may call such Defeased Bonds for redemption upon complying with the provisions of State law and upon the satisfaction of the provisions set forth above regarding such Defeased Bonds as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bonds and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bonds.

*Investment*s. Any escrow agreement or other instrument entered into between the County and the Paying Agent/Registrar or a commercial bank or trust company pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or a commercial bank or trust company for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar or a commercial bank or trust company which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the County.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities and (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the County Commissioners adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America.

The County may modify the categories of Defeasance Securities that are eligible to defease the Bonds to accommodate requests from potential investors.

There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The County believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The County cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the County or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County does not take any responsibility for the accuracy thereof.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Bonds are in the book-entry-only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

Information concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the County, the Financial Advisor, or the respective Purchaser.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is ZB, National Association, dba Amegy Bank, Houston, Texas. In the Order, the County retains the right to replace the Paying Agent/Registrar. The County covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the County agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . If the book-entry-only system should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the County nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the County. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each owner of an Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . The Order establish specific events of default with respect to the Bonds. If the County defaults in the payment of the principal of or interest on the Bonds when due, or the County defaults in the observance or performance of any of the covenants, conditions, or obligations of the County, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the County, the Order provide that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the County to make such payment or observe and perform such covenants, obligations, or conditions.

The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the County's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the County to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the County's governmental immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the County for breach of the Bonds or covenants in the Order. Even if a judgment against the County could be obtained, it could not be enforced by direct levy and execution against the County's property. Further, the registered owners cannot themselves foreclose on property within the County or sell property within the County to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

Furthermore, the County is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the County avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS TO THE ORDER . . . In the Order, the County has reserved the right to amend the Order without the consent of any owners for the purpose of amending or supplementing such Order to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the owners, (2) grant additional rights or security for the benefit of the owners, (3) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the owners, (4) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (5) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the County, do not materially adversely affect the interest of the owners.

The Order further provides that the owners of the respective Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the County; provided, however, that without the consent of 100% of the owners in original principal amount of the then outstanding Bonds no amendment may be made of the purpose of: (1) making any change in the maturity of any of the outstanding Bonds; (2) reducing the rate of interest borne by any of the outstanding Bonds; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) constructing, acquiring by purchase, maintenance, and operation of macadamized, graveled, or paved roads, or in aid thereof, including but not limited to, constructing, designing, improving, extending, expanding, upgrading and/or developing roads, including right-of-way acquisition, utility relocation, drainage improvements relating to these road improvements, traffic safety, other safety, and operational improvements, and other transportation related improvements, and (ii) paying the costs of issuing the Bonds.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

SOURCES OF FUNDS:		
Par Amount of Bonds	$	-
Net Reoffering Premium		-
Total Sources	$	-
USES OF FUNDS:		
Deposit to Project Construction Fund	$	-
Costs of Issuance/Rounding Amount		-
Total Uses	$	-

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TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the County is the responsibility of the Smith County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the State's Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The County may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the County by petition filed with the Appraisal Review Board.

Reference is made to the Texas Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the Texas Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the certificate of the contract by which the debt was created.

Under Article VIII and State law, the Commissioner's Court of a County may take action to refrain from increasing the total ad valorem tax (except for increases attributable to certain improvements) on the residence homestead of the disabled or persons 65 years of age or older and their spouses above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the County chose to establish the above-referenced limitation. On the receipt of a petition signed by five percent of the registered voters of the County, the County shall call an election to determine by majority vote whether to establish such a tax limitation. Such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

State law and Article VIII, Section 2, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000 and, effective January 1, 2010, a disabled veteran who receives 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied, until the surviving spouse remarries.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption, but not both for items of personal property.

The County may create one or more tax increment financing districts ("TIFD") within the County and freeze the taxable values of property in the TIFD at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIFD, may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIFD in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIFD. Taxes levied by the County against the values of real property in a TIFD in which the County participates in excess of the "frozen" value are not available for general County use but are restricted to paying or financing "project costs" within the TIFD.

The County also may enter into tax abatement agreements to encourage economic development. Under tax abatement agreements, a property owner agrees to construct certain improvements on its property and to meet certain requirements regarding investment value, job creation, local minority/woman owned business contracting, etc. The County in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The tax abatement agreement could last for a period of up to ten years.

The County is authorized, pursuant to Chapter 381, Texas Local Government Code, as amended ("Chapter 381"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the County. In accordance with a program established pursuant to Chapter 381, the County may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the County. The County may contract with the federal government, the State of Texas, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By the later of September 30 of each year or the 60th day after the date the certified appraisal roll is received by the County, the County is required to adopt a tax rate per $100 of each year taxable value for the current year. If the County does not adopt a tax rate by such required date, the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the County for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the State's Property Tax Code, the County must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the Commissioners Court that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held in two separate weeks on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the County's website if the County owns, operates or controls an internet website and public notice be given by television if the County has free access to a television channel) and the Commissioners Court has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the County by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The State's Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the State's Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the County is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the County's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

COUNTY APPLICATION OF TAX CODE . . . The County grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $18,000.

The County has granted the "tax freeze" exemption for the residence homestead of persons 65 years of age or older.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the County against the exempt value of residence homesteads for the payment of debt.

The County does not tax nonbusiness personal property; and the Smith County Tax Assessor-Collector collects taxes for the County.

The County does not permit split payments, and discounts are not allowed.

The County does tax freeport property.

The County does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The County has adopted a tax abatement policy.

TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT

2017/2018 Market Valuation Established by Smith County Appraisal District (excluding totally exempt property)		$21,268,567,224	
Less Exemptions/Reductions at 100% Market Value:			
Residential Homestead Exemptions (Over 65 or Disabled)	$ 456,855,919		
Disabled Veterans/Survivor Exemptions	104,393,437		
Homestead Cap	42,575,378		
Agricultural/Productivity Loss	1,770,391,146		
Freeport Exemptions	179,779,044		
Pollution Control	26,432,509		
Solar Wind	145,442		
HB 366 Exemptions	861,334		
Tax Exempt Property	2,200,691,547		
Tax Abatement Reductions	42,120,338		
		$ 4,824,246,094	
2017/2018 Taxable Assessed Valuation		$16,444,321,130	(1)
County Funded Debt Payable from Ad Valorem Taxes as of 2/28/18		$ 19,920,000	
The Bonds		12,000,000	(2)
Total Debt Payable from Ad Valorem Taxes		$ 31,920,000	
Interest and Sinking Fund as of 2/28/18		$5,502,550	
Ratio Tax Supported Debt to Taxable Assessed Valuation		0.19%	

2018 Estimated Population - 225,290
Per Capita Taxable Assessed Valuation - $72,992
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - $142

(1) The County's 2018/2019 Preliminary Taxable Assessed Valuation as of April 16, 2018 was $17,541,945,729.
(2) See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale. Preliminary, subject to change.

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TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY (1)

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2017		2016		2015	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 9,142,320,187	42.99%	$ 8,681,489,488	42.35%	$ 8,211,969,870	41.87%
Real, Residential, Multi-Family	755,999,518	3.55%	719,802,667	3.51%	704,703,096	3.59%
Real, Vacant Lots/Tracts	348,308,921	1.64%	344,830,133	1.68%	346,925,076	1.77%
Real, Acreage (Land Only)	1,859,588,908	8.74%	1,833,612,767	8.95%	1,796,733,221	9.16%
Real, Farm and Ranch Improvements	1,312,232,451	6.17%	1,250,657,098	6.10%	1,206,393,379	6.15%
Real, Commercial	2,759,028,248	12.97%	2,638,676,404	12.87%	2,560,142,257	13.05%
Real, Industrial	305,972,954	1.44%	339,082,642	1.65%	320,493,986	1.63%
Real, Oil, Gas and Other Mineral Reserves	201,977,707	0.95%	177,884,912	0.87%	241,075,496	1.23%
Real and Tangible Personal, Utilities	49,276,738	0.23%	47,055,651	0.23%	43,459,321	0.22%
Tangible Personal, Business	404,735,296	1.90%	381,006,239	1.86%	380,209,713	1.94%
Utilities, Tangible Personal, Other	1,186,032,429	5.58%	1,161,921,155	5.67%	1,168,009,773	5.95%
Tangible Personal, Other Industrial	528,472,795	2.48%	561,433,952	2.74%	542,623,178	2.77%
Tangible Personal, Other, Mobile Homes	87,501,048	0.41%	84,854,130	0.41%	82,342,797	0.42%
Real Property, Inventory	-	0.00%	-	0.00%	40,342,651	0.21%
Real Inventory	48,272,913	0.23%	38,330,114	0.19%	-	0.00%
Special Inventory	77,442,745	0.36%	78,826,633	0.38%	73,850,595	0.38%
Tax Exempt Property, Real	2,201,404,366	10.35%	2,157,611,427	10.53%	1,895,373,943	9.66%
No SPTD Code	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	$ 21,268,567,224	100.00%	$ 20,497,075,412	100.00%	$ 19,614,648,352	100.00%
Less: Total Exemptions/Reductions	4,824,246,094		4,771,121,331		4,448,277,107	
Add: Protested Value not in Dispute	-		11,841,538		1,396,274	
Taxable Assessed Value	$ 16,444,321,130		$ 15,737,795,619		$ 15,167,767,519	

	Taxable Appraised Value Fiscal Year Ended September 30,			
	2014		2013	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 7,795,086,556	41.56%	$ 7,533,980,526	41.38%
Real, Residential, Multi-Family	626,057,924	3.34%	607,376,411	3.34%
Real, Vacant Lots/Tracts	339,528,899	1.81%	325,512,277	1.79%
Real, Acreage (Land Only)	1,682,731,970	8.97%	1,895,165,170	10.41%
Real, Farm and Ranch Improvements	1,116,705,827	5.95%	815,063,196	4.48%
Real, Commercial	2,431,625,948	12.96%	2,323,696,408	12.76%
Real, Industrial	310,696,749	1.66%	318,667,955	1.75%
Real, Oil, Gas and Other Mineral Reserves	359,472,416	1.92%	336,761,438	1.85%
Real and Tangible Personal, Utilities	40,028,545	0.21%	36,675,149	0.20%
Tangible Personal, Business	1,177,460,858	6.28%	1,147,221,057	6.30%
Utilities, Tangible Personal, Other	334,120,491	1.78%	330,019,179	1.81%
Tangible Personal, Other Industrial	570,933,514	3.04%	553,111,984	3.04%
Tangible Personal, Other, Mobile Homes	82,458,876	0.44%	82,482,964	0.45%
Real Property, Inventory	44,206,154	0.24%	55,254,705	0.30%
Real Inventory	-	0.00%	-	0.00%
Special Inventory	65,620,473	0.35%	59,541,837	0.33%
Tax Exempt Property, Real	1,780,419,237	9.49%	1,787,895,521	9.82%
No SPTD Code	11,200	0.00%	-	0.00%
Total Appraised Value Before Exemptions	$ 18,757,165,637	100.00%	$ 18,208,425,777	100.00%
Less: Total Exemptions/Reductions	4,213,115,602		4,091,181,762	
Add: Protested Value not in Dispute	3,868,778		12,117,194	
Taxable Assessed Value	$ 14,547,918,813		$ 14,129,361,209	

Source: Smith County Appraisal District; subject to change during the ensuing year.

(1) The County's 2018/2019 Preliminary Taxable Assessed Valuation as of April 16, 2018 was $17,541,945,729.

TABLE 3 – VALUATION AND AD VALOREM TAX DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population [(1)]	Taxable Assessed Valuation [(2)]	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2014	218,842	$ 14,129,361,209	$ 64,564	$ 30,280,000	0.21%	$ 138
2015	222,936	14,547,918,813	65,256	26,905,000	0.18%	121
2016	225,000	15,167,767,519	67,412	23,465,000	0.15%	104
2017	225,290	15,737,795,619	69,856	19,920,000	0.13%	88
2018	225,290	16,444,321,130 [(3)]	72,992	28,275,000 [(4)]	0.17%	126

(1) Source: Smith County Comprehensive Annual Financial Report.
(2) As reported by the Smith County Appraisal District; subject to change during the ensuing year.
(3) The County's 2018/2019 Preliminary Taxable Assessed Valuation as of April 16, 2018 was $17,541,945,729.
(4) Projected; includes the Bonds. Preliminary, subject to change.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2014	$0.3236	$0.2884	$ 0.0352	$ 44,234,982	98.04%	99.59%
2015	0.3300	0.2957	0.0343	46,296,016	98.17%	99.81%
2016	0.3300	0.2966	0.0334	47,279,645	99.97%	101.56%
2017	0.3300	0.2973	0.0327	48,921,311	100.17%	101.66%
2018	0.3300	0.2984	0.0316	51,019,759	81.20% [(1)]	81.95% [(1)]

(1) Partial collections as of January 31, 2018.

TABLE 5 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2017/2018 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Delek Refining	$ 237,200,444	1.44%
Brookshire Grocery Store	172,484,092	1.05%
Oncor Electric Delivery Co.	162,522,567	0.99%
Dayton Hudson/Target	98,908,254	0.60%
Wal-Mart/Sam's	88,098,545	0.54%
Trane-American Standard	85,067,171	0.52%
Genecov Investment Group	83,528,264	0.51%
Tyler Broadway/Centennial	63,096,458	0.38%
Transcanada Keystone Pipeline	52,279,208	0.32%
Simon Property Group	44,882,250	0.27%
	$ 1,088,067,253	6.62%

TAX RATE LIMITATIONS

Limited Tax Debt Payable from the $0.80 Constitutional Tax Rate . . . Section 1301.003 of the Texas Government Code limits the amount of bonds that may be issued for certain purposes as follows:

Courthouse Bonds	2% of Assessed Valuation
Jail Bonds	1 1/2% of Assessed Valuation
Courthouse and Jail Bonds	3 1/2% of Assessed Valuation
Road and Bridge Bonds	1 1/2% of Assessed Valuation

However, courthouse, jail and certain other types of bonds may be issued under the authority of Section 1473.101 of the Texas Government Code which removes the above limitations.

Article VIII, Section 9, of the Texas Constitution, imposes a limit of $0.80 per $100 Assessed Valuation for all constitutional purposes, including the General Fund, Permanent Improvement Fund, Road and Bridge Fund and Jury Fund, and debt service of bonds, notes, warrants and anticipation notes issued against such funds. Administratively, the Attorney General of the State of Texas will permit allocation of $0.40 of the $0.80 constitutional tax rate for debt service. The Texas Constitution also authorizes (i) a special Road and Bridge Tax for the further maintenance of the public roads not to exceed $0.15 per $100 of assessed valuation, none of which may be used for payment of debt service, and (ii) a tax for Farm-to-Market or Flood Control purposes not to exceed $0.30 per $100 of assessed valuation.

Unlimited Tax Road Bonds . . . Article III, Section 52, Texas Constitution, authorizes the County to levy a separate tax, without legal limit as to rate, to pay debt service on County road bonds issued pursuant to such authority. Article III, Section 52 of the Texas Constitution also provides that unlimited tax bond debt (including unlimited tax road bond debt) may not exceed 25% of the County's assessed valuation of real property. The Bonds are unlimited tax road bond debt.

Road Maintenance (Special Road and Bridge Tax) . . . Imposed by Texas Constitution (Article VIII, Section 9), $0.15 per $100 assessed valuation, no part of which may be used for debt service.

Farm-to-Market and Flood Control Purposes . . . Imposed by Texas Constitution (Article VIII, Section 1-a), $0.30 per $100 assessed valuation after exemption of residential homesteads up to $3,000; no allocation prescribed by statute between debt service and maintenance.

TABLE 6 – TAX ADEQUACY

2018 Principal and Interest Requirements	$ 4,344,050
$0.0272 Tax Rate at 97% Collection Produces	$ 4,338,670
Average Annual Principal and Interest Requirements, 2018-2028	$ 3,285,094
$0.0206 Tax Rate at 97% Collection Produces	$ 3,285,904
Maximum Annual Principal and Interest Requirements, 2019	$ 6,376,126
$0.0400 Tax Rate at 97% Collection Produces	$ 6,380,397

(1) Projected; includes the Bonds. Preliminary, subject to change.

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TABLE 7 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the County are paid out of ad valorem taxes levied by such entities on properties within the County. Such entities are independent of the County and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the County, the County has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the County.

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	County's Overlapping Tax Supported Debt as of 2/28/18
Smith County	$ 31,920,000	100.00%	$ 31,920,000 (1)
Cities			
City of Arp	$ 2,107,000	100.00%	$ 2,107,000
City of Bullard	4,929,000	76.12%	3,751,955
City of Lindale	18,112,523	100.00%	18,112,523
City of Overton	1,025,000	9.26%	94,915
City of Troup	-	94.85%	-
City Whitehouse	19,714,000	100.00%	19,714,000
City Winona	293,000	100.00%	293,000
Total Cities			$ 44,073,393
School Districts			
Arp ISD	$ 19,165,000	100.00%	$ 19,165,000
Bullard ISD	66,845,533	65.67%	43,897,462
Chapel Hill ISD	17,050,000	100.00%	17,050,000
Gladewater ISD	32,585,000	24.32%	7,924,672
Lindale ISD	45,509,207	99.31%	45,195,193
Troup ISD	6,445,000	54.38%	3,504,791
Tyler ISD	431,660,000	100.00%	431,660,000
Van ISD	43,260,000	16.47%	7,124,922
Whitehouse ISD	110,955,000	100.00%	110,955,000
Winona ISD	25,748,426	100.00%	25,748,426
Total School Districts			$ 712,225,466
Special Districts			
East Texas MUD	$ 5,270,000	100.00%	$ 5,270,000
Tyler JCD	37,073,000	94.10%	34,885,693
			$ 40,155,693
Total Direct and Overlapping Tax Supported Debt			$ 828,374,552
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			5.04%
Per Capita Overlapping Tax Supported Debt			$ 3,677

(1) Includes the Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 8 – PRO-FORMA DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Principal	Outstanding Debt Interest	Outstanding Debt Total	The Bonds [1] Principal	The Bonds [1] Interest	The Bonds [1] Total	Total Debt Service Requirements
2018	$ 3,645,000	$ 699,050	$ 4,344,050	$ -	$ -	$ -	$ 4,344,050
2019	3,665,000	589,700	4,254,700	1,760,000	361,426	2,121,426	6,376,126
2020	3,780,000	443,100	4,223,100	830,000	279,075	1,109,075	5,332,175
2021	4,000,000	291,900	4,291,900	145,000	269,325	414,325	4,706,225
2022	4,120,000	171,900	4,291,900	155,000	266,325	421,325	4,713,225
2023	710,000	7,100	717,100	1,415,000	247,088	1,662,088	2,379,188
2024	-	-	-	1,450,000	208,375	1,658,375	1,658,375
2025	-	-	-	1,490,000	165,000	1,655,000	1,655,000
2026	-	-	-	1,540,000	119,550	1,659,550	1,659,550
2027	-	-	-	1,585,000	72,675	1,657,675	1,657,675
2028	-	-	-	1,630,000	24,450	1,654,450	1,654,450
	$ 19,920,000	$ 2,202,750	$ 22,122,750	$ 12,000,000	$ 2,013,288	$ 14,013,288	$ 36,136,038

(1) Interest on the Bonds has been calculated at an assumed rate as of the posted date of the Preliminary Official Statement for purposes of illustration. Preliminary, subject to change.

TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

Limited Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/18		$ 4,344,050 [1]
Interest and Sinking Fund, 9/30/17	$ 1,707,149	
Budgeted Interest and Sinking Fund Tax Collections @ 97%	4,150,533	
Investment Proceeds		5,857,682
Estimated Balance, 9/30/18		$ 1,513,632

(1) Projected; includes the Bonds. Preliminary, subject to change.

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TABLE 10 – AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Authorization Being Used (1)	Unissued Balance
Road Improvements	11/7/2017	$ 39,500,000	$ -	$ 12,000,000	$ 27,500,000
Total		$ 39,500,000	$ -	$ 12,000,000	$ 27,500,000

(1) Preliminary, subject to change.

ISSUANCE OF ADDITIONAL DEBT . . . The County anticipates the issuance of approximately $12,000,000 general obligation debt within the next twelve months.

OTHER OBLIGATIONS

Operating Leases . . . The County operates under numerous lease agreements classified as operating leases. The leases contain annual renewals and include leases for copy machines and postage meters. The combined annual expenditures of operating leases during the fiscal year ended September 31, 2017 was approximately $338,283.

Capital Leases . . . The County has entered into various lease agreements as the lessee for financing the acquisition of vehicles and computer equipment for the Sheriff's Department and Jail as well as equipment for the Road and Bridge Department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The County did not enter into any new capital leases during fiscal year ended September 30, 2017.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	$ 4,765,924
Less: Accumulated depreciation	(3,266,374)
Total	$ 1,499,551

PENSION FUND . . . The County provides retirement, disability and death benefits for all of its full-time employees through non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). See APPENDIX B – "EXCERPTS FROM THE SMITH COUNTY, TEXAS ANNUAL FINANCIAL REPORT" – Notes section for information regarding the County's pension fund.

ANNUAL OPEB COST AND NET OPEB OBLIGATION . . . The County's annual other post employment benefit (OPEB) cost (expense) for the Retiree Health Existing (closed) Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The County had its first OPEB actuarial valuation performed for the fiscal year beginning October 1, 2016 as required by GASB. See APPENDIX B – "EXCERPTS FROM THE SMITH COUNTY, TEXAS ANNUAL FINANCIAL REPORT" – Notes section for information regarding OPEB.

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FINANCIAL INFORMATION

TABLE 11 – STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS

	Fiscal Year Ending September 30,				
	2017	2016	2015	2014	2013
Revenues:					
Property Taxes	$ 50,155,353	$ 48,407,317	$ 46,696,153	$ 44,447,153	$ 43,491,921
Licenses and Other Taxes	17,987,171	17,447,908	17,989,224	17,375,869	16,112,734
Fees of Office	14,548,480	14,391,642	14,843,542	14,567,863	13,894,901
Fines	1,111,907	1,064,895	1,222,979	1,492,331	1,494,520
Intergovernmental Revenues	4,341,587	4,433,314	4,430,032	4,393,404	4,024,089
Other Revenues and Fees	3,133,831	4,439,096	2,908,504	3,652,503	3,837,093
Total Revenues	$ 91,278,329	$ 90,184,172	88,090,434	$ 85,929,123	$ 82,855,258
Expenditures:					
General and Administrative	$ 13,588,505	$ 12,477,132	$ 11,976,341	$ 11,377,443	$ 11,084,803
Justice System	18,820,952	18,215,587	18,162,995	17,022,271	17,151,120
Public Safety	13,502,279	13,004,306	12,728,202	12,332,830	11,691,321
Corrections & Rehabilitation	23,111,450	23,867,191	21,722,139	21,976,306	20,752,349
Health and Welfare	1,433,139	1,361,198	1,590,381	1,722,653	1,833,641
Infrastructure & Environmental	6,385,971	12,096,223	7,248,522	5,799,789	5,529,769
Community & Economic Development	488,972	114,992	115,116	437,030	705,190
Capital Outlay	7,466,685	3,801,147	8,087,998	19,625,860	18,245,035
Debt Service:					
Principle Retirement	4,197,036	4,828,556	4,874,229	4,631,457	4,275,406
Interest & Fiscal Charges	865,690	973,690	998,436	1,065,246	1,115,291
Total Expenses	$ 89,860,679	$ 90,740,022	$ 87,504,359	$ 95,990,885	$ 92,383,925
Excess (Deficiency) of Revenues Over Expenditures	$ 1,417,650	$ (555,850)	$ 586,075	$(10,061,762)	$ (9,528,667)
Other Financing Sources (Uses):					
Sale of Equipment	$ 62,781	$ 34,181	$ 382,297	$ -	$ -
Insurance Proceeds	176,381	-	-	-	-
Transfers In	4,050,000	2,052,088	2,770,964	4,979,937	1,597,820
Transfers Out	(4,050,000)	(2,052,088)	(2,770,964)	(4,979,937)	(1,597,820)
Capital Lease Proceeds	-	-	2,109,498	162,561	2,175,180
Total Other Financing Sources Uses	$ 239,162	$ 34,181	$ 2,491,795	$ 162,561	$ 2,175,180
Net Change in Fund Balance	$ 1,656,812	$ (521,669)	$ 3,077,870	$ (9,899,201)	$ (7,353,487)
Beginning Fund Balance	51,346,785	51,868,454	48,790,584	58,689,785	66,043,272
Other Increase (Decrease) in Fund Balance	-	-	-	-	-
Prior Period Adjustment	-	-	-	-	-
Ending Fund Balance	$ 53,003,597	$ 51,346,785	$ 51,868,454	$ 48,790,584	$ 58,689,785

Source: Smith County Comprehensive Annual Financial Reports.

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TABLE 12 – CHANGE IN NET POSITION

	Fiscal Year Ending September 30,				
	2017	2016	2015	2014	2013
Program Revenues:					
Charges for Services	$ 16,515,551	$ 17,820,337	$ 17,096,291	$ 17,704,080	$ 17,469,598
Operating Grants & Contributions	5,473,483	5,848,269	5,048,437	5,589,457	4,333,248
Capital Grants & Contributions	586,314	127,628	537,923	346,022	709,537
General Revenues:					
Property Taxes	50,177,482	48,450,847	46,738,447	44,562,723	43,438,070
Other Taxes	17,987,171	17,447,908	17,989,224	17,368,276	16,098,612
Miscellaneous	523,981	276,661	563,264	217,938	105,134
Gain on Sale of Assets	62,781	34,181	382,297	64,921	12,412
Interest	659,079	431,362	305,073	176,107	546,554
Total Revenues	$ 91,985,842	$ 90,437,193	88,660,956	$ 86,029,524	$ 82,713,165
Expenses:					
General Government	$ 15,563,810	$ 15,586,973	$ 12,424,974	$ 13,288,738	$ 12,834,578
Justice System	22,278,463	18,511,326	19,096,917	18,633,229	18,438,771
Public Safety	16,649,574	14,940,548	14,075,256	14,250,079	13,205,896
Health and Welfare	1,536,858	1,361,441	1,569,689	1,733,055	1,825,570
Infrastructure	10,242,264	9,323,759	7,856,817	7,094,425	7,427,825
Corrections & Rehabilitation	28,140,531	26,747,533	25,051,057	24,339,547	22,895,180
Community & Economic Development	488,972	114,992	115,116	437,030	705,190
Interest on Long Term Debt	848,318	951,346	974,079	948,025	1,062,624
Total Expenses	$ 95,748,790	$ 87,537,918	$ 81,163,905	$ 80,724,128	$ 78,395,634
Increase (Decrease) in Net Position	$ (3,762,948)	$ 2,899,275	$ 7,497,051	$ 5,305,396	$ 4,317,531
Net Position - Beginning	70,634,605	67,735,330	63,801,750	58,645,810	54,328,279
Other Increases (Decreases) in Fund Balance	-	-	(3,563,471)	(149,456)	-
Net Position - Ending	$ 66,871,657	$ 70,634,605	$ 67,735,330	$ 63,801,750	$ 58,645,810

Source: Smith County Comprehensive Annual Financial Reports.

FINANCIAL POLICIES . . . For a summary of significant accounting policies, See APPENDIX B – "EXCERPTS FROM THE SMITH COUNTY, TEXAS ANNUAL FINANCIAL REPORT" – Note I.

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INVESTMENTS

The County invests its investible funds in investments authorized by State law in accordance with investment policies approved by the Commissioners Court of the County. Both State law and the County's investment policies are subject to change.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE COUNTY . . . Under Texas law, the County is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for County deposits or, (ii) where (a) the funds are invested by the County through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the County as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the County; (iii) the broker or the depository institution selected by the County arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the County; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the County appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission (the "SEC") and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the County with respect to the certificates of deposit issued for the account of the County; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a contribution of cash and obligations described in clause (1) which are pledged to the County, and in the County's name and deposited at the time the univested is made with the County or with a third party selected and approved by the County and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P- 1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the SEC and complies with SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7); and (13) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the County may enter into securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the County, held in the County's name and deposited at the time the investment is made with the County or a third party designated by the County; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

An eligible political subdivision such as the County may enter into hedging transactions, including hedging contracts, related security, credit, and insurance agreements in connection with commodities used the political subdivision in its general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the SEC. The political subdivision may pledge to such contracts or agreements any general or special revenues or funds it is authorized by law to pledge to the payment of any other obligations. The political subdivision's cost under such contract or agreement may be considered an operations and maintenance expense, an acquisition costs, a project cost, or a construction expense.

The County may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The County may also contract with an investment management firm registered under the Investment Advisers Act of 1940

(15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the County retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the County must do so by order, ordinance, or resolution.

The County is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the County is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for County funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All County funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the County’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived.” At least quarterly the County’s investment officers must submit an investment report to the Commissioners Court detailing: (1) the investment position of the County, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest County funds without express written authority from the Commissioners Court.

Under Texas law, the County is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the County to disclose the relationship and file a statement with the Texas Ethics Commission and the County, (3) require the registered principal of firms seeking to sell securities to the County to: (a) receive and review the County’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the County’s investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the County’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TABLE 13 – CURRENT INVESTMENTS

As of March 31, 2018 the County’s investable funds were invested in the following categories:

Investments	Market Value	% of Total
Local Government Investment Cooperative	$ 25,870,869	27.50%
TexSTAR	4,273,474	4.54%
Bank Account	63,920,966	67.95%
	$ 94,065,309	100.00%

TAX MATTERS

OPINION . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX C – FORM OF BOND COUNSEL'S OPINION."

In rendering its opinion, Bond Counsel will rely upon (a) the County's federal tax certificate and (b) covenants of the County with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the County to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the County with the covenants and the requirements described in the preceding paragraph, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the County with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the County as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of non-U.S. holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the County has made the following agreements for the benefit of the respective registered and beneficial owners of the Bonds. The County is required to observe the agreements for so long as it remains obligated to advance funds to pay the Bonds. Under the agreements, the County will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board ("MSRB"). The MSRB currently makes this information publicly available on its Electronic Municipal Market Access System ("EMMA") at http://emma.msrb.org/. All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

ANNUAL REPORTS . . . The County will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the County of the general type included in this Official Statement under the Tables numbered 1 through 6 and 8 through 13 and in APPENDIX B. The County will provide this information within 6 months after the end of each fiscal year ending in or after 2018. If audited financial statements are not available when the other information is provided, the County will provide audited financial statements when and if they become available and will provide unaudited financial statements within 12 months after fiscal year end, unless audited financial statements are sooner provided. Financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the County may be required to employ from time to time pursuant to state law or regulation. The County may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC").

The County's current fiscal year end is September 30. Accordingly, the information under the Tables numbered 1 through 6 and 8 through 13 must be provided by the last day of March in each year, and the audited financial statements (or unaudited financial statements if audited financial statements are not available) must be provided by September 30 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change. If the County changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES . . . The County will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The County will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the County; (13) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of the trustee, if material. (Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement or a trustee.) The County will also file notice with the MSRB, in a timely manner, of any failure by the County to provide financial information or operating data as described above in "– ANNUAL REPORTS" by the time required.

LIMITATIONS AND AMENDMENTS . . . The County has agreed to update information and to provide notices of certain events only as described above. The County has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The County makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The County disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreements or from any statement made pursuant to its agreements, although holders of Bonds may seek a writ of mandamus to compel the County to comply with its agreements.

The County may amend its continuing disclosure agreements from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the County, if (i) the agreements, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the County (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds.

The County may also amend or repeal the provisions of its continuing disclosure agreements if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the County also may amend the provisions of its continuing disclosure agreements in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds, giving effect to (i) such provisions as so amended and (ii) any amendments or interpretations of the Rule.

If the County so amends its continuing disclosure agreements as described in this section, it has agreed to include with the next financial information and operating data provided in accordance with its agreements described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the County has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

OTHER INFORMATION

RATING . . . The Bonds are rated "AA+" by S&P Global Ratings ("S&P"). The outstanding uninsured general obligation debt of the County is rated "AA+" by S&P and "Aa2" by Moody's Investors Service ("Moody's"). No application has been made to Moody's for a rating on the Bonds. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organization and the County makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION . . . The County is a defendant in various tort claims and lawsuits involving general liability, civil rights actions, and various contractual matters. In the opinion of the County's management and the County Attorney's office, the outcome of the pending litigation will not have a material adverse effect on the County's financial position or operations of the County.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The County assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Under the Texas Public Security Procedures Act, Chapter 1201, Texas Government Code, as amended, the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (a) an insurance company, (b) a fiduciary or trustee, or (c) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2236, Texas Government Code, as amended, the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER INFORMATION – RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. No review has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

The County has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The County has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE . . . Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the County under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the County, upon all taxable property within the County, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, to the matters set forth in "TAX MATTERS."

The obligations of the purchaser to take and pay for the Bonds, and of the County to deliver such Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the County from that set forth or contemplated in the Official Statement.

The County will furnish the purchaser a certificate, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the County, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or non-encumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the County in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the County has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the County and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the County, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the County's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the County on the date hereof, and the County assumes no obligation to update any such forward-looking statements. It is important to note that the County's actual results could differ materially from those in such forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

INITIAL PURCHASER . . . After requesting competitive bids for the Bonds, the County accepted the bid of _______________________ (the "Bond Purchaser") to purchase the Bonds at the interest rates shown on page 2 of the Official Statement at a price of approximately _________% of par. The Bond Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the County to the Bond Purchaser. The County has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Bond Purchaser.

MISCELLANEOUS . . . The financial data and other information contained herein have been obtained from the County's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Order authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the respective Purchaser.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . The County, acting by and through its Commissioners Court in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the County and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the County, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the County has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the County has no obligation to disclose any changes in the affairs of the County and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the County delivers the Bonds to the respective Purchaser at closing, unless extended by the respective Purchaser. All information with respect to the resale of the Bonds subsequent to the "end of the underwriting period" is the responsibility of the respective Purchaser.

This Official Statement has been approved by the Commissioners Court for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

County Judge, Smith County, Texas

ATTEST:

County Clerk, Smith County, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE COUNTY

THE COUNTY

Smith County (the "County"), located in northeast Texas, was created in 1846. The County covers approximately 932 square miles, 1,273 miles of county roads, 9 incorporated cities and 18 taxing entities.

The economy is diversified by manufacturing, agribusiness, oil production, and education. Minerals produced in the County include oil, gas, clay, sand, gravel and stone.

The 2010 Census population for the County was 209,714, increasing 16.69% from its 2000 Census population of 174,706. The 2016 Census population estimate was 225,290.

LOCATION OF COUNTY SEAT AND GENERAL DESCRIPTION

The City of Tyler, the county seat of Smith County, is an important East Texas commercial and industrial center located on U.S. Highway 69 just south of Interstate 20. The City is located an equal distance (approximately 100 miles) from the cities of Dallas, Texas and Shreveport, Louisiana.

MANUFACTURING

Tyler has a diversified industrial base with over 250 manufacturers, distributors and processors in the Tyler/Smith County area. Major production from companies employing more than 1,000 employees each includes cast iron pipes and fittings, car and truck tires, and heating and cooling units. Some of the other products and manufactured, processed or distributed in the area include: life jackets, gun cases, baking products, milk products, petrochemical processing equipment, petrochemical products, brass products, manufacturing and processing equipment, meat products, corrugated boxes, exercise equipment, furniture, printing, medical supplies, silk flowers, acetylene, various rubber products, adhesives, fishing lures, candy, lumber treating and many others.

LARGEST EMPLOYERS

Employer	Product/Service	Employees
East Texas Medical Center	Medical Care	3,380
Christus Trinity Mother Francis	Medical Care	3,366
Brookshire Grocery Company	Grocery Distribution	2,456
Tyler Independent School District	Education	2,360
The Trane Company	Air Conditioning Units	1,744
Suddenlink Communications	Cable, Internet & Phone	1,500
UT Health Northeast	Medical Care/Research	1,414
Walmart	Retail	1,396
University of Texas - Tyler	Education	968
Tyler Junior College	Education	947
		19,531

Source: Smith County Comprehensive Annual Financial Report.

LABOR MARKET PROFILE

	Smith County				
	February	Average Annual			
	2018	2017	2016	2015	2014
Civilian Labor Force	107,785	105,896	105,252	103,648	102,258
Total Employed	103,718	101,599	100,495	99,018	96,937
Total Unemployed	4,067	4,297	4,757	4,630	5,321
% Unemployed	3.8%	4.1%	4.5%	4.5%	5.2%

	State of Texas				
	February	Average Annual			
	2018	2017	2016	2015	2014
Civilian Labor Force	13,811,924	13,538,385	13,317,176	13,074,570	13,024,701
Total Employed	13,241,913	12,960,595	12,702,122	12,493,197	12,360,368
Total Unemployed	570,011	577,790	615,054	581,373	664,333
% Unemployed	4.1%	4.3%	4.6%	4.4%	5.1%

Source: Texas Workforce Commission.

MEDICAL CENTER

Tyler is the medical center of East Texas, with seven hospitals and 66 clinics. Including nursing homes and retirement centers there are more than 2,000 beds available in health care facilities. There are more than 400 medical doctors and 95 dentists in Tyler. Included in the array of medical-related services in Tyler is a three-year professional training course offered by Texas Eastern School of Nursing and a baccalaureate degree in nursing offered by University of Texas at Tyler.

PRIMARY EDUCATION

Smith County has ten public independent schools districts, the largest being Tyler ISD. Tyler ISD opened a new facility in the Fall of 2015; the Career & Technology Center which connects students with real-world experiences from a variety of career fields and interests in a rigorous, project-based learning environment.

HIGHER EDUCATION

Higher education facilities are provided at the University of Texas at Tyler with enrollment of approximately 6,700 with 74 undergraduate and graduate degrees in five colleges; Texas College at Tyler with approximately 870 students; Tyler Junior College with an enrollment of approximately 24,738 students; Tyler School of Business; East Texas Barber College; and Tyler Real Estate School.

OIL AND GAS INDUSTRY

When the East Texas Oilfield was discovered in 1931, the County became a headquarters for major oil companies and hundreds of independent oilmen. The County remains an oil center today; however, the County's expanded economic base is more diversified than it was in past years. Today there are numerous oil related service and manufacturing companies located in the County, which produce, among other things, various oilfield equipment and petroleum based products.

APPENDIX B

EXCERPTS FROM THE
SMITH COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2017

The information contained in this APPENDIX consists of excerpts from the Smith County, Texas Annual Financial Report for the Year Ended September 30, 2017, and is not intended to be a complete statement of the County's financial condition. Reference is made to the complete Report for further information.

Gollob Morgan Peddy
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Commissioners' Court of Smith County
Tyler, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Smith County, Texas, as of and for the year ended September 30, 2017, 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 Smith County, Texas as of September 30, 2017, and the respective changes in financial position, and where applicable, cash flows 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 (MD&A) on pages 4–15; the budgetary comparison information contained in Schedules 1, 2 and 3 on pages 57–61; the Schedule of Changes in the County's Net Pension Liability and Related Ratios on page 62; the Schedule of Employer Contributions on page 63; the Schedule of Funding Progress on page 64, and the Notes to

Required Supplementary Information on page 65 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 Smith County, Texas' basic financial statements. The introductory section, additional supplemental information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The additional supplemental information and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 additional supplemental information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018, on our consideration of Smith County, Texas' 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Smith County, Texas' internal control over financial reporting and compliance.

Gollob Morgan Peddy PC

Certified Public Accountants
Tyler, Texas
March 21, 2018

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Members American Institute of Certified Public Accountants and Private Companies Practice Section

THE COUNTY OF SMITH

TEXAS

SMITH COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the County of Smith's financial performance provides an overview of the County's financial activities for the fiscal year ended September 30, 2017. The MD&A should be read in conjunction with the accompanying transmittal letter, the basic financial statements, and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior years of government-wide data.

FINANCIAL HIGHLIGHTS

Smith County's total government-wide assets and deferred outflows of resources exceeded the liabilities and deferred inflows of resources by $66,871,657 at the close of the fiscal year ending September 30, 2017. This is a decrease of $3,762,948 from the previous year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $70,634,605.

Total net position of the primary government is comprised of the following:

- Net investment in capital assets of $63,953,784 includes land, improvements, buildings, infrastructure, intangible assets, construction in progress, and other capital assets, net of accumulated depreciation, and is reduced by outstanding debt, net of unspent proceeds, related to the purchase or construction of capital assets.

- Of the total net position, $14,113,845 is restricted by constraints imposed from outside the County such as debt obligations, laws, and regulations.

- Unrestricted net position is a negative $11,195,972.

- As of September 30, 2017, Smith County governmental funds reported combined fund balances of $53,003,597. This reflects an increase of $1,656,812 from the previous fiscal year. The current year total consists of a combined nonspendable fund balance of $441,491, restricted fund balance of $14,113,845, committed fund balance of $6,326,139, assigned fund balance of 1,661,011, and unassigned fund balance of $30,461,111 for fiscal year 2017.

- The general fund is used to account for the general operations of the county, workforce development and juvenile services. At the end of the fiscal year, the nonspendable fund balance was $436,286, the assigned fund balance for Workforce Development Fund and Juvenile Services was $1,661,011 and the unassigned fund balance was $30,461,111.

- The Road & Bridge Fund is used to account for construction, maintenance, repair or operation of roads, streets, highways, or other related facilities. The committed fund balance for the Road & Bridge Fund at fiscal year end was $3,506,050.

- The County Clerk Records Management & Preservation fund is used to account for specific records management and preservation and automation activities. The fund has a restricted fund balance of $6,564,375 at year end.

- The nonmajor governmental funds had a combined total fund balance at September 30, 2017 of $10,374,764. Of that amount, $5,205 is non-spendable, $2,820,089 is committed and $7,549,470 is restricted ($5,842,321 for special revenue funds and $1,707,149 for debt service).

- In fiscal year 2017, the County did not issue any additional long-term debt.

- Smith County's general obligation debt decreased by $3,545,000. Total general obligation debt at the end of fiscal year 2017 is $19,920,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to introduce the reader to the County's basic financial statements. These statements are comprised of three components 1) Government-wide financial statements; 2) Fund financial statements, and 3) Notes to the basic financial statements. Required supplementary information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of Smith County's finances, in a manner similar to a private-sector business. They include a *Statement of Net Position* and a *Statement of Activities*. Both of these statements are presented using the accrual method of accounting; therefore, revenues and expenses are taken into account regardless of when cash is received or when liabilities are paid.

The *Statement of Net Position* presents information on all of Smith County's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Smith County is improving or deteriorating. There are other non-financial factors, such as changes in the County's property tax base and the condition of the County's roads and facilities that should be considered to assess the overall health of the County.

The *Statement of Activities* presents information showing how Smith County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Due to a full accrual presentation, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Smith County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Smith County include general government, judicial, public safety/law enforcement, health and welfare, public transportation, and community and economic development. The County has no business-type activities and no component units.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Smith County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of Smith County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Road & Bridge Fund, County Clerk Records Management Fund, and Other Governmental Funds. The General Fund consists of the County's General Fund, Juvenile General Fund, Facility Improvement Fund, and the Workforce Investment Fund. Data from other governmental funds is combined into a single, aggregated presentation.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Internal Service Fund (a component of proprietary funds) is used to report activities that provide supplies and services for other programs and activities, such as the County's self-insurance program. Because these services predominantly benefit governmental rather than business-type functions, the Internal Service Fund is reported with governmental activities in the government-wide financial statements.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Smith County's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These activities are excluded from the County's other financial statements since the County cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Basic Financial Statements provide information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information is in addition to the basic financial statements and accompanying notes and presents a budgetary comparison schedule, which includes the original and final amended budget and actual figures.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $66,871,657 for fiscal year 2017 and $70,634,605 for fiscal year 2016. Expenses exceeded revenues during the current year, decreasing net position by $3,762,948.

	Governmental Activities FY16		Governmental Activities FY17	
Current & Other Assets	$	63,606,272	$	62,828,579
Capital Assets (net of depreciation)		87,968,439		86,887,715
Total Assets	$	**151,574,711**	$	**149,716,294**
Deferred Outflows of Resources				
Deferred Charge on TCDRS Pension	$	14,224,852	$	11,922,800
	$	**14,224,852**	$	**11,922,800**
Current & Other Liabilities	$	12,392,641	$	12,972,145
Long-term Liabilities		81,616,899		80,793,639
Total Liabilities	$	**94,009,540**	$	**93,765,784**
Deferred Inflows of Resources				
Deferred Charge on TCDRS Pension	$	1,155,418	$	1,001,953
	$	**1,155,418**	$	**1,001,953**
Net Position:				
Net Investment in Capital Assets	$	60,752,064	$	63,953,784
Restricted		12,948,762		14,113,845
Unrestricted		(3,066,221)		(11,195,972)
Total Net Position	$	**70,634,605**	$	**66,871,657**

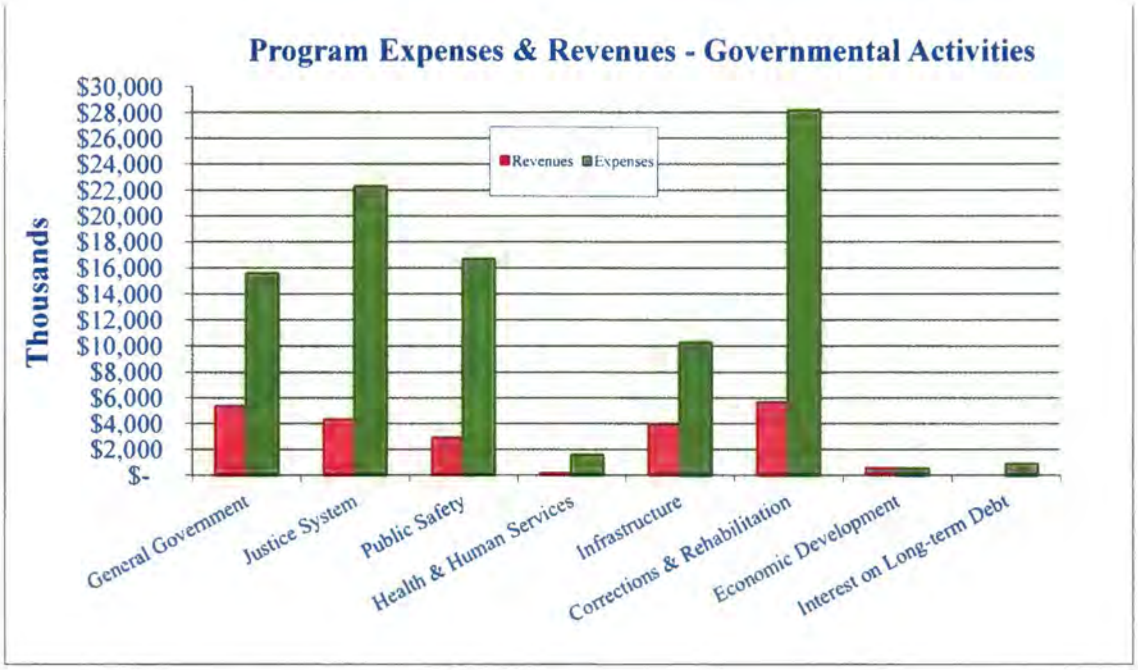
The largest portion of the County's current fiscal year net position, $63,953,784 is invested in capital assets (e.g. land, improvements, buildings, equipment, and infrastructure) less any related outstanding debt used to acquire those assets. The primary use of these capital assets is to provide services to citizens; therefore, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another balance of net position represents resources that are subject to external restriction on how they may be used. Restrictions include $6,746,926 for records management, $2,038,021 for adult probation, $1,707,149 for debt service and \$3,621,749 for other purposes. The remaining portion of the net position is unrestricted net position, which is a negative \$11,195,972.

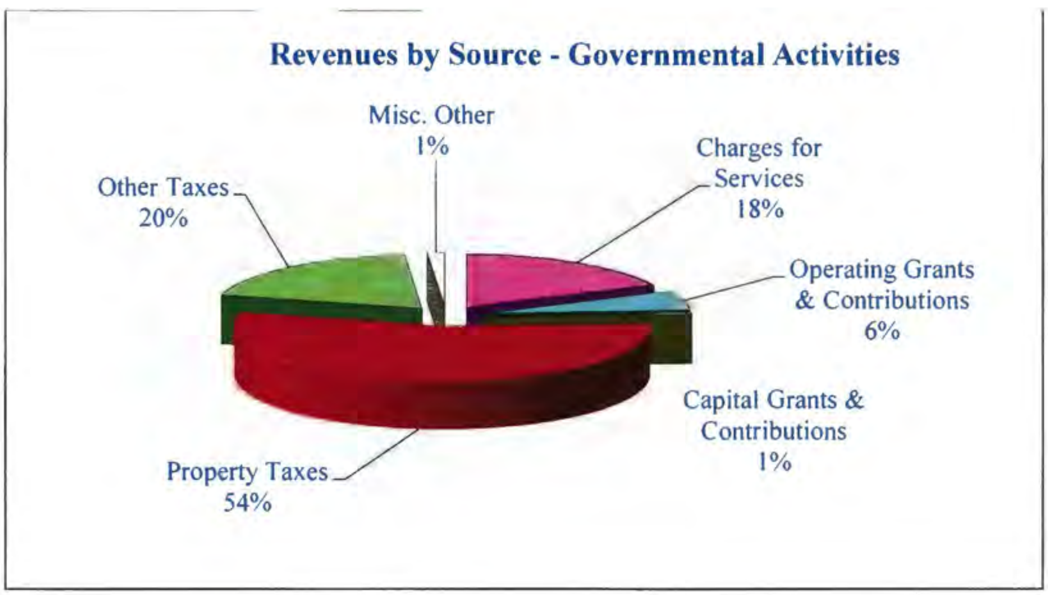
While the County is able to report a positive balance of net position for the government as a whole, the unrestricted net position is negative. The negative unrestricted net position is a result of implementing the new accounting standard which changes the focus of accounting for pension benefits by recognizing the net pension liability as a long-term liability. More information regarding contributions and net pension liability can be found in the required supplemental information.

The following table indicates changes in net position for the governmental activities.

Smith County's Changes in Net Position

		Governmental Activities 2016		Governmental Activities 2017
Net Program Revenues:				
Charges for Services	$	17,820,337	$	16,515,551
Operating Grants & Contributions		5,848,269		5,473,483
Capital Grants & Contributions		127,628		586,314
General Revenues:				
Property Taxes		48,450,847		50,177,482
Sales & Other Taxes		17,447,908		17,987,171
Rentals & Commissions				
Reimbursements				
Miscellaneous		276,661		523,981
Gain (Loss) in Sale of Assets		34,181		62,781
Interest		431,362		659,079
Total Revenues	$	90,437,193	$	91,985,842
Expenses:				
General Government	$	15,586,973	$	15,563,810
Justice System		18,511,326		22,278,463
Public Safety		14,940,548		16,649,574
Health & Human Services		1,361,441		1,536,858
Conservation				
Infrastructure		9,323,759		10,242,264
Corrections & Rehabilitation		26,747,533		28,140,531
Community & Economic Development		114,992		488,972
Interest on Long-term Debt		951,346		848,318
Total Expenses	$	87,537,918	$	95,748,790
Change in Net Position	$	2,899,275	$	(3,762,948)
Net Position - Beginning		67,735,330		70,634,605
Prior Period Adjustment		-		-
Other Increases (Decreases) in Fund Balance		-		-
Net Position - Ending	$	70,634,605	$	66,871,657





Key elements of the analysis of government-wide revenues and expenses reflect the following:

- Program revenues of $22,575,348 equaled 24% of governmental expenses of $95,748,790. As expected, general revenues of $69,410,494 and fund balance provided the additional support and coverage for expenses.

- Approximately 29% of the expenses are for Corrections & Rehabilitation ($28,140,531) while this category provided about 6% of the total revenues of $91,985,842.

- The next largest category of expenses is the Justice System ($22,278,463) at 23%. The Justice System provided about 5% of total revenues. Justice System expense increases are primarily due to the mandated indigent defense legislation that resulted in changes regarding assignment of attorneys and is dependent upon the number and costs of cases.

- Public Safety activities accounted for 17% of governmental expenses while this category provided 3% of total revenues.

- Infrastructure (Road & Bridge) accounted for 11% of governmental expenses while this category provided 4% of total revenues.

- Grant revenues and contributions comprised about 7% of total revenues.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Fund accounting and budget controls provide the framework for the County's strong fiscal management and accountability. The County has an AA2/AA+ bond rating.

Governmental Funds - The general government functions are reported in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of Smith County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Smith County's annual financing and budgeting requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of $53,003,597. Approximately $14,113,845 or 27% are restricted; $6,326,139 or 12% are committed; $1,661,011 or 3% are assigned; $30,461,111 or 57% are unassigned and $441,491 are non-spendable.

Smith County's General Fund 10 is the primary operating fund of the County. At the end of the current fiscal year, the fund balance in the County's General Fund 10 was $30,897,396. As a measure of the general fund's liquidity, we compare the fund balance to the total fund expenditures. The fund balance in the County's general fund ($30,897,396) represents approximately 45% of the County's general fund expenditures. The minimum general fund budgetary target for reserves is 25% of expenditures. The fund balance of the County's general fund increased by $44,605 during the current fiscal year. The increase was attributable to actual revenues slightly exceeding budgetary estimates and actual expenditures ending at approximately 95% of appropriations.

The road & bridge fund accounts for monies designated for the acquisition, construction and maintenance of county roads & bridges. The fund has a total fund balance of $3,506,050 all of which is committed by the Commissioners Court. The fund balance increased by $363,368 from the previous year.

The County Clerk Records Preservation fund is used to account for specific records management and preservation and automation activities. The fund has a total fund balance in FY17 of $6,564,375 which is an increase of $987,154 from the previous year.

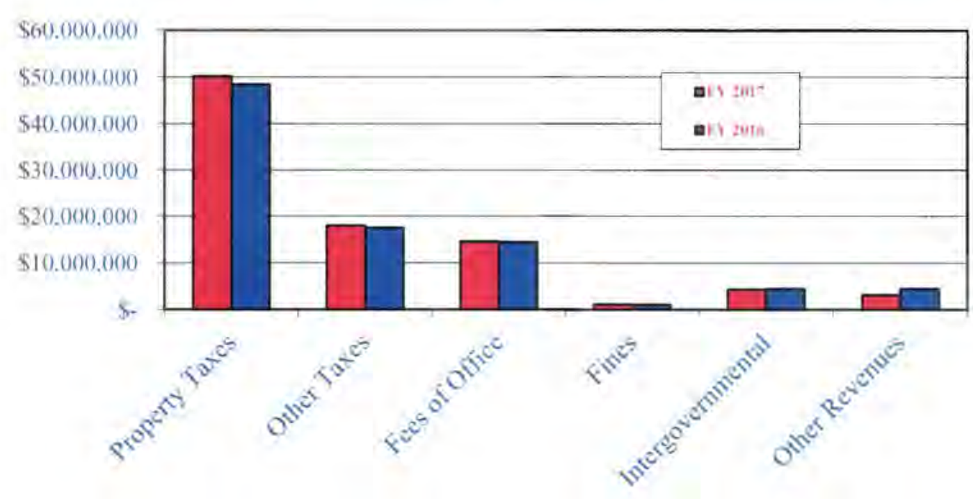
The debt service fund has a total fund balance of $1,707,149, an increase of $59,305 as compared with the prior year.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Governmental Funds - Revenues Classified by Source

Revenues by Source	FY 2017	FY 2016	Increase (Decrease)	Percent of Change
Property Taxes	$ 50,155,353	$ 48,407,317	$ 1,748,036	3.61%
Other Taxes	17,987,171	17,447,908	539,263	3.09%
Fees of Office	14,548,480	14,391,642	156,838	1.09%
Fines	1,111,907	1,064,895	47,012	4.41%
Intergovernmental	4,341,587	4,433,314	(91,727)	-2.07%
Other Revenues	3,133,831	4,439,096	(1,305,265)	-29.40%
Total Revenues	$ 91,278,329	$ 90,184,172	$ 1,094,157	1.21%

Revenues Classified By Source - Governmental Funds



- Property Taxes - the increase of $1,748,036 was primarily due to an increase in taxable values and new construction.

- Other Taxes – the increase is primarily due to increase in sales tax revenues from the previous year.

- Fees of Office & Fines - are impacted by the volume of cases and collection efforts. The slight increase in revenue for FY17 shows the county is stabilizing from the previous year that was impacted by the judicial software conversion.

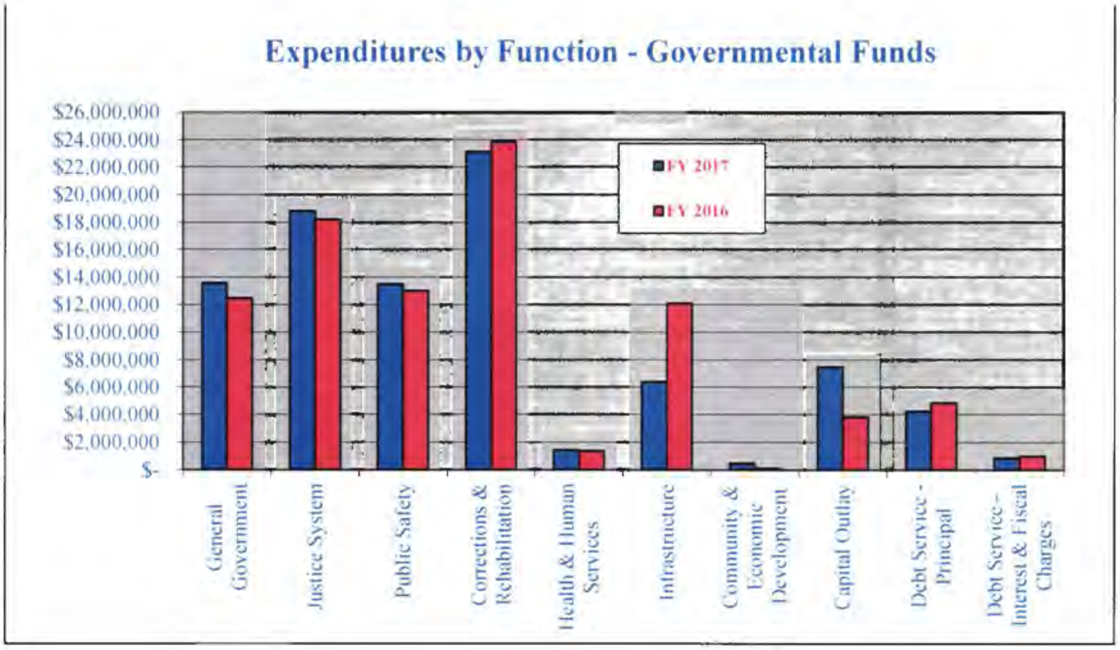
- The decrease in Other Revenues & Fees is attributed to the return of equity from a closed State program that impacted the FY16 amount.

The following table presents expenditure by function compared to prior year amounts.

Expenditures by Function - Governmental Funds

Expenditures by Function	FY 2017	FY 2016	Increase (Decrease)	Percent of Change
General Government	$ 13,588,505	$ 12,477,132	$ 1,111,373	8.91%
Justice System	18,820,952	18,215,587	605,365	3.32%
Public Safety	13,502,279	13,004,306	497,973	3.83%
Corrections & Rehabilitation	23,111,450	23,867,191	(755,741)	-3.17%
Health & Human Services	1,433,139	1,361,198	71,941	5.29%
Infrastructure	6,385,971	12,096,223	(5,710,252)	-47.21%
Community & Economic Development	488,972	114,992	373,980	325.22%
Capital Outlay	7,466,685	3,801,147	3,665,538	96.43%
Debt Service - Principal	4,197,036	4,828,556	(631,520)	-13.08%
Debt Service - Interest & Fiscal Charges	865,690	973,690	(108,000)	-11.09%
	$ 89,860,679	$ 90,740,022	$ (879,343)	-0.97%

Overall, total expenditures decreased by approximately 1%. The large decrease in expenditures of 47.21% in Infrastructure is due to the classification of the major road construction projects as capital outlay. The increase in Community & Economic Development is due to the increased number of capital grant projects in FY17.



OPERATING FUNDS - BUDGETARY HIGHLIGHTS

The budget is prepared in accordance with accounting principles generally accepted in the United States of America by the County Budget Officer and approved by the Commissioners Court following a public hearing. Appropriated budgets are approved and employed as a management control device during the year. The County maintains strict budgetary controls and sets its appropriations at the category level (i.e. salaries, benefits, operating expenses, and capital) for each department. Appropriation transfers may be made between select categories or departments only with the approval of the Commissioners Court.

The following are significant variations between the final budget and actual amounts in the general operating funds.

Actual revenues were higher than budgeted by $1,394,910.

Actual expenditures were 95% of the amended budget. Operational savings from budgeted amounts were primarily from salary lag and unused contingency funds.

DEBT ADMINISTRATION AND CAPITAL ASSETS

Long-term Debt - At September 30, 2017, Smith County had general obligation bonds outstanding in the amount of $19,920,000. The County's bond rating is AA2 from Moody's and AA+ from Standard and Poor's. In compliance with Governmental Accounting Standards Board (GASB) Statement 45, Smith County began reporting the Other Post Employment Benefit (OPEB) obligation in FY09.

The following represents the activity of the long-term debt of the County for FY2017.

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
General Obligation Bonds	$ 23,465,000	$ -	$ 3,545,000	$ 19,920,000
Bond Premium, Net	315,155	-	85,409	229,746
Compensated Absences	2,708,471	1,891,078	1,738,999	2,860,550
OPEB Obligation	39,122,189	2,357,735	-	41,479,924
Net Pension Liability	18,869,583	2,092,366	-	20,961,949
Capital Leases	3,436,220	-	652,036	2,784,184
Total	$ 87,916,618	$ 6,341,179	$ 6,021,444	$ 88,236,353

Additional information on the County's long-term debt can be found in note VIII of this report.

Capital Assets - The capital assets of Smith County are those assets (land, buildings, improvements, roads & bridges, and machinery & equipment), which are used in the performance of the County's functions including infrastructure assets. At September 30, 2017, net capital assets of the governmental activities totaled $86,887,715. Depreciation on capital assets is recognized in the Government-wide financial statements.

Smith County's Capital Assets

	Cost	Accumulated Depreciation	Net Capital Assets
Governmental Activities:			
Land	$ 1,223,436	$ -	$ 1,223,436
Buildings & Improvements	88,116,032	36,849,311	51,266,721
Machinery & Equipment	32,089,909	26,168,890	5,921,019
Infrastructure	92,142,532	63,944,122	28,198,410
Construction in Progress	278,129	-	278,129
Total	$ 213,850,038	$ 126,962,323	$ 86,887,715

Additional information on the County's capital assets can be found in note VI of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The annual budget is developed to provide efficient and economic uses of Smith County's resources, as well as, a means to accomplish the highest priority objectives. Through the budget, the County Commissioners set the direction of the County, allocate its resources and establish its priorities.

In considering the Smith County budget for FY2018, the County Commissioners and management considered the following factors:

- Property tax revenues are budgeted to increase in FY18 due to an increase in the taxable values and new property.
- Interest rates are planned to remain relatively unchanged.
- Expenditures are budgeted to provide zero dependence on fund balance for ongoing operations.

PENSION AND OTHER POST EMPLOYMENT BENEFIT PLANS

The County is committed to fund pensions and retiree healthcare that is fair to both employees and taxpayers and can be sustained over the long term.

Effective for the fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* created specific reporting requirements for pensions that are different than those used for funding purposes. Both valuations are important as the reporting valuation provides a standard measure that can be used to compare pension liabilities to other governments and the funding valuation includes strategies for repaying any unfunded actuarial accrued liabilities.

The County provides retirement benefits through the statewide Texas County and District Retirement System (TCDRS). TCDRS is governed by a Texas state statute which requires the County to contribute the annually determined contribution rate or modify plan benefits.

The Required Supplemental Information (RSI) section contains a schedule regarding the changes in net pension liability and related ratios, which is based on reporting valuation and a schedule of contributions which is based on the funding valuation. Also included in the RSI is a schedule regarding the funding progress related to other postemployment benefits.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need any additional financial information, contact the appropriate financial office (County Auditor, County Treasurer or County Judge) at 200 E. Ferguson St., Tyler, Texas 75702 or visit the County's website at www.smith-county.com.

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

SMITH COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	PRIMARY GOVERNMENT
	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	$ 21,889,067
Investments	32,536,528
Receivables (net of allowance for doubtful accounts)	7,082,763
Investment in joint venture	849,599
Prepaids and other assets	470,922
Capital assets (net of accumulated depreciation):	
Land	1,223,436
Buildings	12,133,819
Improvements	39,132,902
Machinery and equipment	5,921,019
Construction in progress	278,129
Infrastructure	28,198,410
Total Assets	149,716,594
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on TCDRS pension	11,922,800
Total Deferred Outflows of Resources	11,922,800
LIABILITIES	
Vouchers payable	3,460,121
Salaries payable	1,783,205
Unearned revenue - grants	92,122
Accrued interest payable	143,983
Bail bond collateral	50,000
Long-term debt:	
Portion due or payable within one year:	
Compensated absences	2,194,722
Capital leases	1,602,992
Bonds payable	3,645,000
Portion due or payable after one year:	
Compensated absences	665,828
Capital leases	1,181,192
Bonds payable	16,504,746
Net pension liability	20,961,949
Other post employment benefit liability	41,479,924
Total Liabilities	93,765,784
DEFERRED INFLOWS OF RESOURCES	
Deferred charge on TCDRS pension	1,001,953
Total Deferred Inflows of Resources	1,001,953
NET POSITION	
Net investment in capital assets	63,953,784
Restricted for:	
Records preservation	6,746,926
Law enforcement purposes	1,539,127
Adult probation	2,038,021
Juvenile services	259,028
Inmates	508,499
Courthouse security	756,667
Technology	337,218
Public services	14,220
Judicial support	206,990
Debt service	1,707,149
Unrestricted	(11,195,972)
Total Net Position	$ 66,871,657

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

EXHIBIT 2

SMITH COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
					PRIMARY GOVERNMENT
Functions/Programs	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
Primary Government:					
Governmental activities:					
General government	$ 15,563,810	$ 4,579,801	$ 748,211	$ -	$ (10,235,798)
Justice system	22,278,463	3,774,718	513,427	-	(17,990,318)
Public safety	16,649,574	1,035,860	1,705,028	108,001	(13,800,685)
Corrections and rehabilitation	28,140,531	3,408,882	2,223,299	-	(22,508,350)
Health and human services	1,536,858	-	133,555	-	(1,403,303)
Infrastructure	10,242,264	3,716,290	-	139,304	(6,386,670)
Community and economic development	488,972	-	149,963	339,009	-
Interest on long-term debt	848,318	-	-	-	(848,318)
Total primary government	$ 95,748,790	$ 16,515,551	$ 5,473,483	$ 586,314	$ (73,173,442)
General revenues:					
Property taxes					$ 50,177,482
Sales taxes					17,375,397
Other taxes					611,774
Miscellaneous					523,981
Gain on sale of assets					62,781
Interest earned					659,079
Total general revenues					69,410,494
Change in net position					(3,762,948)
Net position - beginning of year					70,634,605
Net position - end of year					$ 66,871,657

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

SMITH COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	GENERAL	ROAD AND BRIDGE FUND - SPECIAL REVENUE	COUNTY CLERK RECORDS PRESERVATION FUND - SPECIAL REVENUE	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	$ 5,708,802	$ 3,469,196	$ 4,314,686	$ 6,547,974	$ 20,040,658
Investments	25,146,304	674,203	2,241,355	4,474,079	32,535,941
Receivables:					
Property taxes	2,255,341	257,424	-	373,149	2,885,914
Other	3,842,741	191,765	17,881	284,782	4,337,169
Prepaid and other assets	436,286	29,431	-	5,205	470,922
Due from other funds	183,000	-	-	-	183,000
Total assets	$ 37,572,474	$ 4,622,019	$ 6,573,922	$ 11,685,189	$ 60,453,604
LIABILITIES					
Vouchers payable	$ 1,353,418	$ 738,563	$ 9,547	$ 524,801	$ 2,626,329
Salaries payable	1,488,600	135,197	-	159,408	1,783,205
Unearned revenue - grants	-	-	-	92,122	92,122
Bail bond collateral	50,000	-	-	-	50,000
Due to other funds	-	-	-	183,000	183,000
Total liabilities	2,892,018	873,760	9,547	959,331	4,734,656
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue-property taxes	2,122,048	242,209	-	351,094	2,715,351
Total Deferred Inflows of Resources	2,122,048	242,209	-	351,094	2,715,351
FUND BALANCES					
Nonspendable:					
Prepaids	436,286	-	-	5,205	441,491
Restricted for:					
District clerk	-	-	-	39,757	39,757
County law library	-	-	-	188,346	188,346
Records preservation	-	-	6,564,375	142,794	6,707,169
Juvenile delinquency prevention	-	-	-	4,102	4,102
Courthouse security	-	-	-	756,667	756,667
Law enforcement purposes	-	-	-	1,506,252	1,506,252
Drug court program	-	-	-	4,932	4,932
Adult probation	-	-	-	2,038,021	2,038,021
Juvenile services	-	-	-	259,028	259,028
Tobacco law enforcement	-	-	-	13,608	13,608
Technology	-	-	-	337,218	337,218
Law enforcement training	-	-	-	19,267	19,267
County judge training	-	-	-	9,610	9,610
Voting machines	-	-	-	7,557	7,557
Voter registration services	-	-	-	6,663	6,663
Inmates	-	-	-	508,499	508,499
Debt service	-	-	-	1,707,149	1,707,149
Committed to:					
Community policing contracted services	-	-	-	32,101	32,101
Major building repairs	-	-	-	976,303	976,303
Elections department	-	-	-	88,061	88,061
Capital projects	-	-	-	1,723,624	1,723,624
Road maintenance	-	3,506,050	-	-	3,506,050
Assigned to:					
Workforce development	223,410	-	-	-	223,410
Juvenile services	1,437,601	-	-	-	1,437,601
Unassigned	30,461,111	-	-	-	30,461,111
Total fund balances	32,558,408	3,506,050	6,564,375	10,374,764	53,003,597
Total liabilities, deferred inflows of resources, and fund balances	$ 37,572,474	$ 4,622,019	$ 6,573,922	$ 11,685,189	$ 60,453,604

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

SMITH COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (EXHIBIT 1)
SEPTEMBER 30, 2017

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances governmental funds (Exhibit 3)	$	53,003,597
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet.		86,887,715
Equity in an affiliated joint venture is included in governmental activities in the statement of net position.		849,599
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the governmental funds balance sheet.		2,457,828
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet.		(143,983)
Internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		1,132,407
Net other post employment benefit obligation in governmental activities does not require current financial resources and therefore are not reported in the governmental funds balance sheet.		(41,479,924)
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.		(25,794,480)
Net pension liability		(20,961,949)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position as well as the differences between expected and actual experience and the net difference between projected and actual earnings.		11,922,800
Differences between expected and actual pension experience are deferred inflows on the Statement of Net Position		(1,001,953)
Net position of governmental activities	$	66,871,657

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

SMITH COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	GENERAL	ROAD AND BRIDGE FUND - SPECIAL REVENUE	COUNTY CLERK RECORDS PRESERVATION FUND - SPECIAL REVENUE	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Property taxes	$ 39,792,615	$ 4,502,377	$ -	$ 5,860,361	$ 50,155,353
Licenses and other taxes	17,987,171	-	-	-	17,987,171
Fees of office	7,111,740	2,782,772	1,108,555	3,545,413	14,548,480
Fines	430,689	681,218	-	-	1,111,907
Intergovernmental revenues	1,005,470	-	-	3,336,117	4,341,587
Other revenues and fees	1,936,713	252,300	57,214	887,604	3,133,831
Total revenues	68,264,398	8,218,667	1,165,769	13,629,495	91,278,329
EXPENDITURES					
Current					
General government	13,122,520	-	178,615	287,370	13,588,505
Justice system	18,403,884	-	-	417,068	18,820,952
Public safety	12,637,870	-	-	864,409	13,502,279
Corrections and rehabilitation	17,959,642	-	-	5,151,808	23,111,450
Health and human services	1,382,251	-	-	50,888	1,433,139
Infrastructure and environmental	-	6,385,971	-	-	6,385,971
Community and economic development	-	-	-	488,972	488,972
Capital outlay	866,636	5,400,644	-	1,199,405	7,466,685
Debt service:					
Principal retirement	609,708	42,328	-	3,545,000	4,197,036
Interest and fiscal charges	64,977	29,613	-	771,100	865,690
Total expenditures	65,047,488	11,858,556	178,615	12,776,020	89,860,679
Excess (deficiency) of revenues over (under) expenditures	3,216,910	(3,639,889)	987,154	853,475	1,417,650
OTHER FINANCING SOURCES (USES)					
Sale of equipment	59,524	3,257	-	-	62,781
Insurance proceeds	155,999	-	-	20,382	176,381
Transfers in	-	4,000,000	-	50,000	4,050,000
Transfers (out)	(4,000,000)	-	-	(50,000)	(4,050,000)
Total other financing sources (uses)	(3,784,477)	4,003,257	-	20,382	239,162
Net change in fund balances	(567,567)	363,368	987,154	873,857	1,656,812
Fund balances - beginning of year	33,125,975	3,142,682	5,577,221	9,500,907	51,346,785
Fund balances - end of year	$ 32,558,408	$ 3,506,050	$ 6,564,375	$ 10,374,764	$ 53,003,597

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

EXHIBIT 6

SMITH COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES (EXHIBIT 2)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	$	1,656,812
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 by which depreciation in the current period exceeded capital outlay for County owned assets.		(1,064,366)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.		(16,365)
The net increase of the equity in investment in an affiliated joint venture is reflected on the statement of activities.		135,460
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		22,129
Governmental funds report all payments to other post employment benefits as expenditures. However, in the government-wide statement of activities the actuarial annually required contribution is considered an expense. Any deficit amount is considered a liability. Change in net other post employment benefits obligation.		(2,357,735)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		4,282,445
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. This amount reflects the change in the accrued liability for compensated absences and change in pension expense as a result of GASB 68.		(4,393,032)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as an expenditure in governmental funds.		17,372
Internal service fund is used by management to charge the costs of health insurance to individual funds. The net revenue of the internal service fund is reported with governmental activities.		(2,045,668)
Change in net position of governmental activities	$	(3,762,948)

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

EXHIBIT 7

SMITH COUNTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Governmental Activities - Internal Service Funds
ASSETS	
Current Assets:	
Cash	$ 1,848,409
Investments	587
Accounts receivable	117,203
Total Current Assets	1,966,199
LIABILITIES	
Current Liabilities:	
Vouchers payable	833,792
Total Current Liabilities	833,792
NET POSITION	
Unrestricted	1,132,407
Total Net Position	$ 1,132,407

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

EXHIBIT 8

SMITH COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premiums and reimbursements	$ 9,227,867
Total Operating Revenues	9,227,867
OPERATING EXPENSES	
Insurance claims and administrative fees	11,305,415
Total Operating Expenses	11,305,415
Operating income	(2,077,548)
NON-OPERATING REVENUES	
Interest income and other	31,880
Change in net position	(2,045,668)
NET POSITION - SEPTEMBER 30, 2016	3,178,075
NET POSITION - SEPTEMBER 30, 2017	$ 1,132,407

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

EXHIBIT 9

SMITH COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2017

		Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for premiums and payroll	$	63,257,757
Cash paid to customers and employees		(64,420,920)
Net cash used in operating activities		(1,163,163)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments		31,880
Net cash provided by investing activities		31,880
Net decrease in cash		(1,131,283)
Cash at beginning of year		2,979,692
CASH AT END OF YEAR	$	1,848,409
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	(2,077,548)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Decrease in accounts receivable		781,204
Decrease in prepaids		106,297
Increase in vouchers payable		26,884
Net cash used in operating activities	$	(1,163,163)

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

EXHIBIT 10

SMITH COUNTY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS
SEPTEMBER 30, 2017

		Agency Funds
ASSETS		
Cash	$	9,838,026
Investments		2,907,257
Accounts receivable		67,871
Total Assets	$	12,813,154
LIABILITIES		
Vouchers payable	$	518,685
Due to other governments		442,715
Other liabilities		11,851,754
Total Liabilities	$	12,813,154

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Smith County (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), justice system (courts, juries, district attorney, etc.), public safety (sheriff, constables, etc.), corrections and rehabilitation (jail and community supervision), health and human services (assistance to indigents, veteran services, etc.), conservation, and infrastructure and environmental (streets and highways).

The accounting and reporting policies of the County relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments – Audit and Accounting Guide* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the County are described below.

The basic financial statements are prepared in conformity with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Significantly, the County's statement of net position includes both noncurrent assets and noncurrent liabilities of the County. In addition, the government-wide statement of activities reflects depreciation expenses on the County's capital assets, including infrastructure.

For financial reporting purposes, based on standards established by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* this financial statement presents the County (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria; the primary government appoints the voting majority of its board and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. Under these standards, the County has no component units which are required to be reported, discretely or blended, in combination with the primary government.

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 are reported separate from certain legally separate component units for which the government is financially accountable.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary funds included in the fund financial statements. Under this measurement focus, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Fines and forfeitures are recognized when they have been assessed and adjudicated and earned. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Statement of Activities reflects the degree to which the direct expenses of the County's programs are offset by those programs' 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 program or function. Program revenues for governmental activities include those generated from general government, judicial, public safety, health and human service, corrections and rehabilitation, and community and economic development. Taxes and other items not properly included in program revenues are reported as general revenues.

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 Road and Bridge Fund are classified as **major governmental funds**. Each major fund is reported in separate columns in the fund financial statements. Non-major funds include Special Revenue, Capital Projects, and Debt Service funds. The combined amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. Detailed statements for all non-major funds are presented within Combining Schedules.

FUND-LEVEL FINANCIAL STATEMENTS

Fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers revenues as available if they are collected within 60 days after the fiscal year ends. 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 payment is due.

Property tax revenues, the County's primary revenue source, is susceptible to accrual and is considered available to the extent of delinquent taxes collected within 60 days after the end of the fiscal period. Grant and entitlement revenues are also subject to accrual. Encumbrances are used during the year and lapse at the end of the year. Valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

Governmental funds are accounted for using the current financial resources measurement focus. This means that only current assets, current liabilities, and current deferred outflows/inflows of resources are generally included on their balance sheet. Their reported fund balance (net current assets and current deferred outflows of resources) is considered a measure of "available spending resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets and current deferred outflows of resources. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for 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. Claims incurred, but not reported are included in payables and expenses. All assets, liabilities, and deferred outflows/inflows of resources (current and noncurrent) associated with their activities are included in the fund's statement of net position.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The County's accounts are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund equity, revenues and expenses or expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, although the latter are excluded from the government-wide statements.

The government reports the following major governmental funds:

The **General Fund** is the general operating fund of the County and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general government, justice system, public safety, corrections and rehabilitation, health and human services, and infrastructure and environmental.

The **Road and Bridge Special Revenue Fund** accounts for the activities associated with the building, maintaining or improving roads, highways, and bridges within the County, including maintenance of road and bridge facilities. Major revenue sources include property taxes and charges for services.

The **County Clerk Records Preservation Special Revenue Fund** is used to account for specific records management and preservation and automation activities. Major revenue sources includes fees collected by the County Clerk for filing or recording services for non-court related documents and fees imposed on defendants convicted of offense in county court or county court at law. Primary expenditures are for specific records preservation and automation projects and can include employee salaries, so long as the employees perform records management and preservation functions.

Other Fund types include proprietary and fiduciary funds which are considered as nonmajor funds. Non-major funds include special revenue funds, capital projects funds, and debt service funds.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. Internal Service funds are used to account for the financing of goods or services provided by one department or agency of the County to other County departments or agencies on a cost reimbursement basis.

The County has two proprietary funds which are classified as internal service funds: 1) The Insurance Fund used to account for the County's group medical self-insurance program. Revenues are derived from County contributions, employee and retiree/COBRA premiums, investment of idle funds and stop loss collections. Expenses are for claims and administrative expenses. 2) The Payroll fund acts as an agent for the payroll processing of the County's departments. The fund operates as an agency fund, where liabilities are recorded when monies are received. However, this fund is the recipient of interest and incurs certain related expenses. The residual interest and related expenditures result in an equity balance which is inappropriate for agency funds recorded in the Fiduciary Statements.

(Continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The **Proprietary funds** are accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations (e.g. insurance payments).

Fiduciary fund level financial statements include fiduciary funds which are classified into private purpose trust and agency funds. The County has only agency funds which are used to account for assets held by the County as an agent for individuals, private organizations, other governments and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County reports eleven agency funds as nonmajor fiduciary funds.

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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. State statutes and the County's official Investment Policy authorize the County to invest in repurchase agreements, certificates of deposit, direct obligations of the U. S. Government and agency securities, money market mutual funds, and managed public funds investment pools.

The County records investments at fair market value in accordance with provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The reported value of the pool is the same as the fair value of the pool shares. All investment income is recognized as revenue in the appropriate fund's statement of activity and 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 amounts.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the County. Program grants are recorded as receivables and revenues at the time eligibility requirements established by the grantor have been met.

Lending or borrowing between funds is reflected as "due to or due from" (current portion) or "advances to/from other funds" (non-current). Interfund activity reflected in "due to or due from" is eliminated on the government-wide statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity - Continued

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The fund financial statements are offset by a reservation of fund balance which indicates they do not represent "available spendable resources." Prepaids are accounted for using the consumption method. Under the consumption method, prepaids are recorded as expenditures when they are used.

4. Capital Assets

Capital assets, which include land, buildings, improvements, machinery and equipment, and infrastructure assets (e.g., 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 and estimated useful lives in excess of one year. Infrastructure assets, which include County-owned roads and bridges, are capitalized with a cost of $50,000 or more. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	15 to 25
Infrastructure	20 to 45
Machinery and equipment	3 to 15

5. Construction-in-Progress

Expenditures on incomplete capital projects have been capitalized as construction-in-progress. The assets resulting from these projects will be transferred from the construction-in-progress accounts to the appropriate asset account as the projects are completed.

6. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity - Continued

6. Compensated Absences - Continued

Permanent full-time employees earn vacation leave at an established rate according to their years of service and may accumulate up to 18 days if years of service are less than 10 years, 24 days if years of service are 10-20 years, and 30 days if years of service are greater than 20 years. Employees lose, without pay, unused vacation leave which exceeds this limit.

Each permanent full-time employee earns sick leave at the rate of one working day per month and may accumulate maximum sick leave of 80 working days. After an employee accumulates the maximum number of sick days, any excess may be converted to vacation days at an exchange rate of four sick days for one day of vacation. Outstanding sick leave balances are canceled, without recompensation, upon termination, resignation, retirement or death. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences,* no liability is recorded for nonvesting accumulated rights to receive sick pay benefits.

The regular workweek is based on 40 hours actually worked. With the exception of Jail employees, overtime, unless required to be paid by Federal statutes, is accumulated as compensatory (comp) time and earned at time and a half for non-exempt employees and at straight time for exempt employees. Comp time is accumulated and either taken off or paid at the employees' current rate of pay on termination, resignation, retirement or death. For those employed in the Jail, overtime is paid as incurred.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities. On new bonds issued, bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County did not have any items that qualified for reporting in this category other than the items related to the changes in the net pension liability, which are discussed below.

In addition to liabilities, the statement of net position reports 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows consist of differences in expected and actual pension experience and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. The differences in

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity - Continued

8. Deferred Outflows/Inflows of Resources - Continued

expected and actual pension experience are amortized over a four year period. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The County also has deferred outflows related to the recording of changes in its net pension liability. Certain changes in the net pension liability are recognized as pension expense over time instead of all being recognized in the year of occurrence. Experience gains or losses result from periodic studies by the County's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. Changes in actuarial assumptions which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. The difference between projected investment return on pension investments and actual return on those investments is also deferred and amortized against pension expense over a five year period. Additionally, any contributions made by the County to the pension plan before year end but subsequent to the measurement date of the County's net pension liability are reported as deferred outflows of resources.

9. Fund Equity

In the fund financial statements, governmental funds report fund balance categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by an ordinance, which is the formal action of the County's highest level of decision-making authority, the Commissioners' Court. Committed resources cannot be used for any other purpose unless the Commissioners' Court removes or changes the specified use by the same type of action previously used to commit those amounts.

Assigned fund balance – represents amounts the County intends to use for specific purposes as expressed by the Commissioners' Court. This is the residual classification for all governmental funds other than the general fund.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity - Continued

9. Fund Equity - Continued

amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The County's minimum fund balance policy requires that unassigned fund balances are maintained at a level adequate to provide for unanticipated expenditures of a nonrecurring nature and to meet unexpected increases in service delivery costs. The minimum level for General Fund unassigned fund balances is 25% of budgeted General Fund expenditures.

10. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows/inflows of resources and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the County's retirement plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

D. Implementation of New Standards

In the current fiscal year, the County implemented the following new standards:

GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement 77, *Tax Abatement Disclosures*, has the objective to provide essential information about tax abatement programs to assist financial statement users to better assess 1) sources and uses of financial

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Implementation of New Standards - Continued

resources; 2) compliance with finance related legal or contractual requirements; and 3) financial position and economic conditions. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens.

GASB Statement 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

E. Future Implementation of New Standards

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This statement is effective for fiscal year beginning after June 15, 2017. The County is evaluating the impact of this statement on the County's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*, which will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In this circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The County is evaluating the impact of this statement on the County's financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. It will also enhance the decision-usefulness of the information provided to financial statements users by requiring disclosures related to those AROs. This statement is effective for reporting periods beginning after June 15, 2018. The County is evaluating the impact of this statement on the County's financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. This statement is effective for reporting periods beginning after December 15, 2018. The County is evaluating the impact of this statement on the County's financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, which will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. This statement is

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Future Implementation of New Standards - Continued

effective for reporting periods beginning after June 15, 2017. The County is evaluating the impact of this statement on the County's financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This statement is effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance and purpose of a government's leasing arrangements. This statement is effective for reporting periods beginning after December 15, 2019.

II. RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between fund balance for total governmental funds and net position as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable and pension liability, are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet." The details of this $(25,794,480) difference are as follows:

Bond payable	$ (19,920,000)
Bond premium, net	(229,746)
Capital leases obligations	(2,784,183)
Compensated absences	(2,860,550)
Net adjustment to reduce fund balance - total governental funds to arrive at net position - governmental activities	$ (25,794,480)

Another element of that reconciliation states that "capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental funds balance sheet." The details of this $86,887,715 difference are as follows:

Beginning balance of capital assets, net of accumulated depreciation	$ 87,968,439
Capital asset additions, net of retirements	7,675,678
Depreciation of capital assets, current year	(8,756,402)
	$ 86,887,715

II. RECONCILIATION OF GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS – continued

B. Explanation of certain differences between the government fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation indicates that "governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $(1,064,366) difference are as follows:

Capital outlay	$ 7,466,685
Donated capital outlay recorded at government wide level only	225,351
Depreciation expense	(8,756,402)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net postion of governmental activities	$ (1,064,366)

Another element of that reconciliation states that "The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities." The details of this $4,282,445 difference are as follows:

Principal payments on long-term debt	$ 4,197,036
Amortization of bond premium	85,409
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	$ 4,282,445

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

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. After adoption by Commissioners' Court, the control for the detailed fee office/department budgets is at the department head or elected official level and by the County Auditor.

(2) Public hearings are conducted to obtain taxpayer comment.

(3) The budget is legally enacted through adoption by the Commissioners' Court.

(4) Budgets for the General, certain Special Revenue Funds (County Law Library, County Clerk Records Preservation, District Clerk Records Preservation, Juvenile Delinquency Prevention, Courthouse Security, Justice Court Technology, County & District Court Technology, Community

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

A. Budgets and Budgetary Accounting – continued

Policing, Forfeiture Interest 10%, JAC Maintenance and Road & Bridge), Capital Projects and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) in the United States of America.

(5) Encumbrances expire at fiscal year-end, which is consistent with generally accepted accounting principles in the United States of America.

(6) Comparison of budgeted and actual amounts as shown in Schedules 1 through 2 in the accompanying financial report include the General Fund and the Road and Bridge Special Revenue Fund which are two of the County's major funds in the current fiscal year.

(7) Budgetary data for certain Special Revenue funds encompassing various Federal and State programs are cumulative as opposed to annual budgets or the annual budgets have a fiscal year end consistent with the state program or agency from which they receive state funding rather than the County's fiscal year end. Therefore, budget and actual comparisons are not reported in the accompanying financial report for these funds.

(8) In addition, certain Special Revenue funds are not required under the Texas Local Government Code to submit budgets under the County budgeting process. During the current year, these Smith County offices submitted a budget to Commissioners' Court for reporting purposes only.

The budgets as presented in the financial statements reflect all amendments approved by the Commissioners' Court for the year ended September 30, 2017, if designated as final budget.

B. Expenditures Over Appropriations

No funds had expenditures in excess of appropriations for the year ended September 30, 2017.

C. Deficit Fund Equity

As of September 30, 2017, there were no funds with a deficit fund balance.

IV. DEPOSITS AND INVESTMENTS

The carrying amount of the County's cash was $21,889,067, and total bank balances equaled $25,194,716. The carrying amount of the County's Trust and Agency cash was $9,838,026 and total bank balances equaled $11,426,728. The bank deposits 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 or subdepository banks except funds held in trust by the Justice of the Peace offices number 2, 3 and 4, and Auto Registration, which are not under a subdepository contract.

The County's investment policies are governed by state statutes and county ordinance. Permissible investments include direct obligations of the U.S. Government and agency securities, certificates of deposit, and repurchase agreements. The County holds investments in Local Government Investment Cooperative (LOGIC) and Texstar. Investments at LOGIC normally consist of U.S. T-bills, commercial paper, T-notes, collateralized certificates of deposit and repurchase agreements. Investments at Texstar consist of U.S. T-bills, T-notes, collateralized certificates of deposit and repurchase agreements. Both LOGIC and Texstar are managed in full compliance with the Texas Public Funds Investment Act. The County records all interest revenue earned from investment activities in the respective funds.

IV. DEPOSITS AND INVESTMENTS - continued

Both investment pools carry investments at amortized cost, which approximates fair value. Investments are priced daily and compared to carrying value. If the ratio of the fair value of the portfolio of investments to the carrying value of investments is less than .995 or greater than 1.005, the investment pools will sell investment securities, as required, to maintain the ratio at a point between .995 and 1.005.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

Investments are stated at fair value or amortized costs, which approximates fair value, and are held by the County's agent in the County's name. The County's deposits and investments at year end are shown below.

	Fair Value	Weighted Average Maturity	Credit Risk
Local Government Investment Cooperative	$ 25,742,623	40	AAA
TexStar	6,782,919	28	AAAm
Southside - Certificate of Deposit	10,986	247	N/A
Cash in bank	21,889,067	N/A	N/A
Total fair value	$ 54,425,595		
Portfolio weighted average maturity		22	

Credit risk – Credit risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. The County has limited credit risk, in conformance to state statutes and County ordinance, by investing in only the safest types of securities as permitted by the Public Funds Investment Act, using approved brokers and with different investment pools.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The County has no formal policy on interest rate risk.

Custodial credit risk – Custodial credit risk is the risk for deposits that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The County requires all bank deposits to be collateralized at a level not less than 100% of the total uninsured deposits. At September 30, 2017, the carrying amount of the County's cash was covered by pledged securities.

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The County's investment policy does not permit securities listed in foreign denominations. Consequently, the County is not exposed to foreign currency risk.

V. 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

V. PROPERTY TAXES AND OTHER RECEIVABLES - Continued

and those for the City of Bullard, City of Tyler, City of Troup, City of Whitehouse, City of Winona, the Bullard Independent School District (ISD), Tyler ISD, Whitehouse ISD, Winona ISD, Tyler Junior College and the Smith County Water Control District. The County is the only entity controlled by the Commissioners' Court; the County acts only as an intermediary in the collection and distribution of property taxes to the other entities.

Collections of the property taxes and subsequent remittances to the proper entities are accounted for in the Tax Assessor/Collector's Agency Fund. Tax collections are recorded net of the entities' related collection commission paid to the County in this agency fund according to the levy year for which the taxes are collected. Tax collections deposited for the County are distributed on a monthly basis to the General and Debt Service Funds of the County.

This distribution is based upon the tax rate established for each fund by order of the Commissioners' Court for the tax year for which the collections are made.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

Unavailable revenue:	
General fund	$ 2,122,048
Road & Bridge fund	242,209
Facility improvement fund	82,283
Debt service fund	268,811
Total unavailable revenue	$ 2,715,351

The County is authorized by the tax laws of the State of Texas to levy taxes up to $.479505 per $100 of assessed valuation for general governmental services and the payment of principal and interest on certain permanent improvement long-term debt. The tax rate as of September 30, 2017 was $.330000.

Receivables as of year-end for the governmental activities, individual major governmental funds and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, as required by GASB 34 are as follows:

	Internal Service and General Fund	Road and Bridge Special Revenue Fund	County Clerk Records Preservation Special Revenue Fund	Other Nonmajor Funds	Total Governmental Activities
Receivables:					
Property Taxes	$ 2,255,341	$ 257,424	$ -	$ 373,149	$ 2,885,914
Other	3,959,944	191,765	17,881	284,782	4,454,372
Gross receivables	6,215,285	449,189	17,881	657,931	7,340,286
Less: Allowance for uncollectibles	201,254	22,971	-	33,298	257,523
Net total receivables	$ 6,014,031	$ 426,218	$ 17,881	$ 624,633	$ 7,082,763

The County enters into property tax abatement agreements with local businesses under the State Property Redevelopment and Tax Abatement Act, Chapter 312, as well as its own guidelines and criteria, which is required under the Act. Under the Act, including its guidelines and criteria, the County may grant property tax abatements for economic projects under the program that provide an increase of at least $1,000,000 in property values, or an annual payroll increase of $400,000 or the creation of 25 new permanent full time jobs. Abatements are granted for up to 100% over a period of time specified on an individual basis. The County's priority for tax abatement is to

(Continued)

V. PROPERTY TAXES AND OTHER RECEIVABLES – Continued

extend tax abatement to primary employers. In providing local jobs, the retention of existing jobs is recognized as more important than recruitment of new companies. Abatement is given to provide significant, long term, positive economic impact to the community using local contractors and the resident workforce to the maximum extent feasible and by developing, redeveloping and improving real estate within the County. Uses available for tax abatement include manufacturing, distribution centers, corporate or regional office parks, research facilities and small entrepreneurs.

Disclosure relevant for the fiscal year ended September 30, 2017 is:

Government Entering Into Tax Abatement	Terms of Abatement	Name	Type	Smith County Applied Value	Amount of Taxes Abated for FY 2017
Smith County	100% 4 years	Boyd Metals	Manufacturing	$ 459,485	$ 1,516
Smith County	100% 5 years	JSF-2 LTD	Food Processing Facility	14,315,182	47,240
Smith County	100% 6 years	John Soules Enterprises	Food Processing Facility	2,000,000	6,600
Smith County	100% 4 years	Wiggins Creek Leasing LLC	Manufacturing	54,000	178
			Total County Initiated	$ 16,828,667	$ 55,534
City of Tyler	100% 5 years	VME Process, Inc.	Process System Supplier	$ 1,071,626	$ 3,536
City of Tyler	100% 7 years	Renal Care Group Texas, Inc.	Dialysis Service Provider	2,358,768	7,784
City of Tyler	100% 5 years	Centene Corp	Claims Processing Center	1,041,766	3,438
City of Tyler	100% 5 years	Thomas Lee Properties, LLC	Manufacturing	1,371,152	4,525
City of Tyler	100% 5 years	Centene Company of Texas LP	Claims Processing Center	10,648,359	35,140
City of Tyler	100% 7 years	Vereit OFC Tyler TX LLC	Medical Support	8,800,000	29,040
			Total Initiated by Others	$ 25,291,671	$ 83,463

VI. 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 useful lives and classification by function. Infrastructure assets are recorded at estimated acquisition costs by using indexes to discount estimated current replacement costs.

A summary of changes in capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,126,005	$ 97,431	$ -	$ 1,223,436
Construction in progress	908,520	278,129	(908,520)	278,129
Total capital assets, not being depreciated	2,034,525	375,560	(908,520)	1,501,565
Capital assets, being depreciated:				
Infrastructure	87,210,801	4,931,731	-	92,142,532
Buildings	34,683,334	345,930	-	35,029,264
Improvements	51,709,698	1,377,070	-	53,086,768
Machinery and equipment	30,536,002	1,570,272	(16,365)	32,089,909
Total capital assets, being depreciated	204,139,835	8,225,003	(16,365)	212,348,473
Less accumulated depreciation for:				
Infrastructure	(61,562,477)	(2,381,645)	-	(63,944,122)
Buildings	(22,172,708)	(722,737)	-	(22,895,445)
Improvements	(11,790,904)	(2,162,962)	-	(13,953,866)
Machinery and equipment	(22,679,832)	(3,489,058)	-	(26,168,890)
Total accumulated depreciation	(118,205,921)	(8,756,402)	-	(126,962,323)
Total capital assets, being depreciated, net	85,933,914	(531,399)	(16,365)	85,386,150
Governmental activities capital assets, net	$ 87,968,439	$ (155,839)	$ (924,885)	$ 86,887,715

(Continued)

VI. CAPITAL ASSETS - Continued

Depreciation expense for 2017 was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	$	845,023
Public safety		1,356,131
Correction and rehabilitation		2,261,832
Health and human services		-
Infrastructure and environmental		3,210,660
Justice system		1,082,756
Total depreciation expense - governmental activities	$	8,756,402

VII. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Construction Commitments. As of September 30, 2017, the County has active construction projects. At year end the County's commitments with contractors are as follows:

Project		Spent-to-Date		Estimated Remaining Commitments
Jail Intercom System	$	44,752	$	1,000
Jail Holding Tank Restoration Project		87,780		75,000
Courthouse Restroom Renovation		5,500		135,444
Special Road Projects		140,097		1,412,960
	$	278,129	$	1,624,404

Encumbrances. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General fund	$	34,983
Road and Bridge fund		1,594,903
Nonmajor governmental funds		238,678
Total	$	1,868,564

VIII. LONG-TERM DEBT

During the year ended September 30, 2011, the County issued $39,955,000 *General Obligation Bonds - 2011 Series.* The proceeds from the sale of the bonds were used to fund the Jail Expansion project, to refund $5,710,000 of the County's outstanding certificates of obligation to achieve debt service savings, and to pay the cost related to the issuance of the bonds.

VIII. LONG-TERM DEBT - continued

General obligation bonds currently outstanding are as follows:

Description	Bond Amt	Rates (%)	Issue	Maturity	Outstanding
General Obligation Bonds - 2011 Series	$ 39,955,000	1.0 - 4.0	6/28/2011	8/15/2023	$ 19,920,000

The annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending September 30	Principal	Interest
2018	$ 3,645,000	$ 699,050
2019	3,665,000	589,700
2020	3,780,000	443,100
2021	4,000,000	291,900
2022	4,120,000	171,900
2023	710,000	7,100
	$ 19,920,000	$ 2,202,750

General Obligation Bonds are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest tax regulations under these provisions.

Changes in Long-Term Debt

Long-term liability for the year ended September 30, 2017 was as follows:

Governmental Activities:	Beginning Balance 10/1/2016	Additions	Reductions	Ending Balance 9/30/2017	Due Within One Year	Due in More Than One Year
General obligation bonds	$ 23,465,000	$ -	$ 3,545,000	$ 19,920,000	$ 3,645,000	$ 16,275,000
Bond premium, net	315,155	-	85,409	229,746	-	229,746
Compensated absences	2,708,471	1,891,078	1,738,999	2,860,550	2,194,722	665,828
OPEB obligation	39,122,189	2,357,735	-	41,479,924	-	41,479,924
Net Pension Liability	18,869,583	2,092,366	-	20,961,949	-	20,961,949
Capital leases	3,436,220	-	652,036	2,784,184	432,454	2,351,730
Total	$ 87,916,618	$ 6,341,179	$ 6,021,444	$ 88,236,353	$ 6,272,176	$ 81,964,177

The liabilities listed above for compensated absences, other post-employment benefit obligation and net pension liability will be liquidated by the County's General Funds, Road and Bridge Fund, Adult Probation Funds, and Juvenile Probation Funds. The liability for capital leases will be liquidated by the General Funds and Road and Bridge Fund.

IX. LEASES - Continued

Operating Leases

The County operates under numerous lease agreements classified as operating leases. The leases contain annual renewals and include leases for copy machines and postage meters. The combined annual expenditures for operating leases during the fiscal year ended September 30, 2017 was approximately $338,283.

Capital Leases

The County has entered into various lease agreements as the lessee for financing the acquisition of vehicles and computer equipment for the Sheriff's Department and Jail as well as equipment for the Road and Bridge Department. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The County did not enter into any new capital leases during fiscal year ended September 30, 2017.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	$ 4,765,924
Less: Accumulated depreciation	(3,266,374)
Total	$ 1,499,551

Depreciation expense on assets under capital lease for the year ended September 30, 2017 was $1,034,224.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

Year Ending September 30	Governmental Activities
2018	505,458
2019	1,606,333
2020	410,062
2021	158,894
2022	158,894
2023-2025	103,996
Total minimum lease payments	2,943,638
Less: amount representing interest	(159,454)
Present value of minimum lease payments	$ 2,784,184

X. INTERFUND RECEIVABLES, PAYABLE BALANCES AND TRANSFERS

In the fund financial statements, interfund balances are the result of normal transactions between funds and will be liquidated in the subsequent fiscal year. Balances between individual governmental funds are eliminated in the government-wide financial statements.

X. INTERFUND RECEIVABLES, PAYABLE BALANCES AND TRANSFERS - continued

The composition of interfund balances as of September 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Non-major Governmental Funds	$183,000	Supplement fund sources
	Total	$183,000	

The following summarized the County's transfers for the year ended September 30, 2017:

	Transfers In			
	Road and Bridge Fund	Nonmajor Governmental Funds	Total	Explanation
Transfers out:				
General Fund	$ 4,000,000	$ -	$ 4,000,000	Supplemental fund sources
Nonmajor Governmental Funds	-	50,000	50,000	Supplemental fund sources
Totals	$ 4,000,000	$ 50,000	$ 4,050,000	

XI. DEFINED BENEFIT PENSION PLAN

(a) 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 is responsible for the administration of the statewide agent multi-employer public employee retirement system. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employers, 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 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the employer.

Benefits 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 with 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.

(b) PLAN MEMBERSHIP

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

XI. DEFINED BENEFIT PENSION PLAN - continued

	12/31/2015	12/31/2016
Inactive employees or beneficiaries currently receiving benefits	423	464
Inactive employees entitled to but not yet receiving benefits	630	677
Active employees	900	900
	1,953	2,041

(c) CONTRIBUTIONS

The employer has elected the annually determined contribution rate (Variable Rate) 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 TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 11.02% for the months of the accounting year 2017, and 10.13% for the months of the accounting year 2016. County contributions to the plan were $4,192,173 for the year ended September 30, 2017.

The deposit rate payable by the employee members for 2016 and 2017 is the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer deposit rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

(d) NET PENSION LIABILITY OF THE COUNTY

The County's Net Pension Liability was measured as of December 31, 2016, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

(e) ACTUARIAL ASSUMPTIONS

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0%
Overall payroll growth	3.5%
Investment rate of return	8.10%, net of pension plan investment expenses, including inflation

The County has no automatic cost-of-living adjustments ("COLA") and one is not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculation or in the funding valuation.

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 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

Salary increases were based on a service-related table. Mortality rates for active members were based on the RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year set-back, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that. Mortality rates for service retirees, beneficiaries and non-depositing members were based on the RP-2000 Combined Mortality Table

XI. DEFINED BENEFIT PENSION PLAN – continued

projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females. Mortality rates for disabled retirees were based on the RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

The actuarial cost method was Entry Age Normal, as required by GASB 68. Straight-line amortization over Expected Working Life with a 5 year smoothing period, and a non-asymptotic recognition method with no corridor were utilized in the actuarial calculations.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68. Updated mortality assumptions were adopted in 2015.

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 2017 information for a 7-10 year time horizon.

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 2013. The following target asset allocation was adopted by the TCDRS board in April 2017. The geometric real rate of return is net of inflation, assumed at 2.0%.

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index[1]	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities - Emerging	MSCI EM Standard (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	60.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Oppotunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leverage Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index [2]	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index+33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index [3]	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%
		100.00%	

[1] Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.
[2] Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.
[3] Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

XI. DEFINED BENEFIT PENSION PLAN – continued

(f) DISCOUNT RATE

The discount rates used to measure the Total Pension Liability was 8.10%. Using the alternative method, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments based on the funding requirements under the County'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 layered periods.
2. Under the TCDRS Act, the County is legally required to make the contribution specified in the funding policy.
3. The County'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.

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.

(g) CHANGES IN THE NET PENSION LIABILITY

		Increase (Decrease)	
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2015	$ 142,883,858	$ 124,014,275	$ 18,869,583
Changes for the year:			
Service cost	5,136,064	-	5,136,064
Interest on total pension liability [1]	11,548,165	-	11,548,165
Effect of plan changes[2]	1,176,989	-	1,176,989
Effect of economic/demographic gains or losses	(308,900)	-	(308,900)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(556,062)	(556,062)	-
Benefit payments	(6,397,293)	(6,397,293)	-
Administrative expenses	-	(99,745)	99,745
Member contributions	-	2,693,793	(2,693,793)
Net investment income	-	9,172,255	(9,172,255)
Employer contributions	-	3,898,296	(3,898,296)
Other [3]	-	(204,647)	204,647
Balances as of December 31, 2016	$ 153,482,821	$ 132,520,872	$ 20,961,949

[1] Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.
[2] Reflects decrease in substantively automatic COLA valued.
[3] Relates to allocation of system-wide items.

XI. DEFINED BENEFIT PENSION PLAN – continued

The required schedule of changes in the County's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

(h) SENSITIVITY ANALYSIS

The following presents the net pension liability of the County, calculated using the discount rate of 8.10%, as well as what the Smith 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 in Discount Rate (7.10%)	Discount Rate (8.10%)	1% Increase in Discount Rate (9.10%)
Total pension liability	$ 173,960,851	$ 153,482,821	$ 136,587,427
Fiduciary net position	132,520,872	132,520,872	132,520,872
Net pension liability/(asset)	$ 41,439,979	$ 20,961,949	$ 4,066,555

(i) PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS financial report.

(j) PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended September 30, 2017, the County recognized pension expense of $4,240,953. At September 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 1,001,953	$ 502,620
Changes of assumptions	-	741,030
Net difference between projected and actual earnings	-	7,560,688
Contributions made subsequent to measurement date	-	3,118,462
Total	$ 1,001,953	$ 11,922,800

County contributions subsequent to the measurement date of $3,118,462 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending September

XI. DEFINED BENEFIT PENSION PLAN – continued

30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	
2017	$ 2,980,030
2018	2,477,410
2019	2,175,652
2020	169,293
	$ 7,802,385

XII. OTHER INFORMATION

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 employee; and natural disasters. The County maintains commercial insurance coverage for each of 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 past three years.

CONTINGENT LIABILITIES

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. A contingent liability was not established because potential reimbursements are considered immaterial.

Litigation

The County is involved in lawsuits and other claims in the ordinary course of operations. Such litigation included lawsuits alleging violations of the Texas Open Records Act, unlawful termination, and violations of civil rights. The County is aggressively defending these suits and believes that the loss, if any, resulting from the suits listed above will not have a material impact on the County's financial position, results of operations and cash flows in the future years.

JOINT VENTURE

The North Texas Public Health District was established, effective October 1, 1993, by a cooperative agreement between the City of Tyler and Smith County, Texas pursuant to authority by the Texas Health and Safety Code for the purpose of providing public health services previously provided by the participating entities. The District is considered a joint venture between the City and County with each retaining an equity interest based upon the percentage each contributed to the budget.

For the year ended September 30, 2017, the County budgeted funding of $200,000 for the Health District. The County's equity interest in the Health District was $849,599 at September 30, 2017. Financial statements for the Health District may be obtained at the entity's Administrative Offices.

DEFERRED COMPENSATION

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan assets are not a part of the County's financial statements because a third party administrator holds these plan assets in trust.

XII. OTHER INFORMATION - continued

The market value and carrying value of deferred compensation plan assets is $2,313,975 as of September 30, 2017.

HEALTH, DENTAL AND LIFE PLANS

The County implemented a self-insured health plan for employees, including dental and prescription benefits. The County pays the full amount of insurance premiums for their retirees except dependent coverage. The employees pay the cost of coverage for any dependents they enroll under the plan. The County maintains an Insurance Fund to track premiums and claim payments. The County has retained an insurance policy for specific and aggregate stop-loss coverage. There is an individual stop-loss of $175,000 and aggregate protection at 175% of total health and prescription claims per year.

Changes in the estimated liability for medical claims for fiscal years 2016 and 2017 are presented below:

Insurance Fund	Insurance Claims Payable At Beginning of Year	Current Year Claims and Changes In Estimates	Actual Claim Payments	Insurance Claims Payable At End of Year
9/30/2016	$ 501,848	$ 8,100,368	$ 7,829,002	$ 773,214
9/30/2017	773,214	11,013,333	10,985,472	801,075

XIII. POST EMPLOYMENT BENEFITS

(a) HEALTH PLAN

Program Description

In addition to the pension benefits described in Note XI, as required by state law and defined by County Policy, the County makes available health care benefits, including medical/RX, dental, and life insurance, to all employees, and their spouses and children, who retire from the County and who are receiving benefits from a County sponsored retirement program (Texas County and District Retirement System (TCDRS)) through a single-employer defined benefit healthcare plan. The healthcare plan provides insurance to eligible retirees, their spouses, and children through the County's group health insurance plan, which covers both active and retired members, until age 65 when retirees become eligible and are required to enroll in Medicare Part B, at which time coverage supplements Medicare.

Current retirees in the health plan and at retirement, active employees that meet the conditions for retirement from TCDRS (age 60 and above with 8 years or more of service, 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more) and the retirees that have worked for Smith County for 20 years, are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants (Retiree Health Existing (Closed) Program).

Active employees hired after June 1, 2005 are not eligible to continue coverage in the County-sponsored medical/RX or dental plan, nor are they provided life insurance by the County. Under the provisions of GASB Statement 45, these employees who will not be eligible to continue coverage in the County's Health Plan do not receive an Other Post Employment Benefit. Accordingly, only those employees who are eligible to participate in the Retiree Health Existing (Closed) Program are included in the valuation results described below.

Funding Policy

Retirees in the Retiree Health Existing (Closed) Program do not contribute to the funding unless they have dependent coverage for which they contribute at the same rate as active employees with dependent coverage. The

XIII. POST EMPLOYMENT BENEFITS – Continued

(a) HEALTH PLAN - continued

Funding Policy - continued

County contribution consists of monthly premium contributions to the Smith County Insurance Fund to pay claims for retirees that are not Medicare eligible. The contributions are at the same premium rate as for active employees. Medicare eligible retirees are provided a Medicare insurance supplement program. The County contributions to the Smith County Insurance Fund for retirees in fiscal year 2017 were $815,000.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post employment benefit (OPEB) cost (expense) for the Retiree Health Existing (Closed) Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The County had its OPEB actuarial valuation performed for the fiscal year beginning October 1, 2016 as required by GASB. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

	9/30/2017	9/30/2016
Annual required contribution (ARC)	$ 4,006,715	$ 4,203,467
Interest on net OPEB obligation	1,485,450	1,387,591
Adjustment to annual required contribution	(2,319,430)	(2,134,741)
Annual OPEB cost	3,172,735	3,456,317
Contributions made	(815,000)	(825,000)
Change in OPEB obligation	2,357,735	2,631,317
Net OPEB obligation - beginning of year	39,122,189	36,490,872
Net OPEB obligation - end of year	$ 41,479,924	$ 39,122,189

Trend Information

Fiscal Year Ended December 31	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
2015	$ 3,358,537	24%	$36,490,872
2016	3,456,317	24%	39,122,189
2017	3,172,735	26%	41,479,924

Funded Status and Funding Progress

As of October 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $38,119,884 all of which was unfunded. There are no valuation assets available to offset the liabilities of the plan.

XIII. POST EMPLOYMENT BENEFITS – Continued

(a) HEALTH PLAN - continued

Funded Status and Funding Progress - continued

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (c) = (b-a)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (e) = (c/d)
10/1/2016	$ -	$ 38,119,884	0%	$ 38,119,884	$ 9,800,000	389.00%

Actuarial values of the program involve estimates of the value of reported amounts and assumption of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information (only one year presented in this year of implementation) that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the County chose to close its program as of June 1, 2005 and not to establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2016, actuarial valuation, the projected unit credit, closed amortization period, level percent of payroll cost method was used. The actuarial assumptions included a 4.0% discount rate and an annual healthcare cost trend rate for medical/RX of 8.67% initially, reduced by decrements to an ultimate rate of 5.0% after 11 years, and the annual healthcare cost trend rate for dental of 5.5% initially, reduced by decrements to an ultimate rate of 5.0% after 2 years. Assumptions also include a 100% election of employees hired prior to June 1, 2005 to participate in the health insurance and dental insurance plans, and a 25% election of spousal coverage in both plans. Rates include a 4% inflation assumption. The County's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with the GASB requirements.

(b) SUPPLEMENTAL DEATH BENEFITS PLAN

Plan Description

The County participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County and District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees. The coverage provided to retired employees is a postemployment benefit other than pension benefits (OPEB). Retired employees are insured for $5,000.

The GTLF is a separate trust administered by the TCDRS board of trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary

XIII. POST EMPLOYMENT BENEFITS - Continued

(b) SUPPLEMENTAL DEATH BENEFITS PLAN - continued

Plan Description - continued

information for the GTLF. This report is available at www.tcdrs.org. TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System, P.O. Box 2034, Austin, TX 76768-2034, or by calling 800-823-7782.

Funding Policy

Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The County's contributions to the GTLF for the years ended for the years ended September 30, 2017, 2016, and 2015 were $115,215, $121,652 and $115,969, respectively which equaled the contractually required contributions each year.

XIV. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 21, 2018, the date the financial statements were available to be issued.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

SMITH COUNTY, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2018

IN THE AGGREGATE PRINCIPAL AMOUNT OF $12,000,000

AS BOND COUNSEL for Smith County, Texas (the "*Issuer*"), the issuer of the Bonds described above (the "*Bonds*"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including the executed Bond Numbered T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to principles of sovereign immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "*Code*"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being financed and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "*Service*"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,