

**ORANGE COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2008**

**ORANGE COUNTY, TEXAS**

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# **FINANCIAL SECTION**

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**INDEPENDENT AUDITORS' REPORT**

To the Honorable County Judge  
and County Commissioners  
Orange County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County, Texas, as of and for the year ended September 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Orange County, Texas' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009, on our consideration of Orange 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Orange County, Texas' basic financial statements. The combining and individual nonmajor financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments and Nonprofit Organizations*," and is not a required part of the basic financial statements of the County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Patillo, Brown & Hill, L.L.P.*

June 30, 2009

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

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# ORANGE COUNTY, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the County of Orange's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the County's financial performance during the fiscal year that ended September 30, 2008. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the County's financial statements, which follow this part of the CAFR.

### FINANCIAL HIGHLIGHTS

- The assets of Orange County exceeded its liabilities as of September 30, 2008, by \$52,025,429 (net assets). Of this amount, \$15,937,050 (unrestricted net asset) may be used to meet the County's ongoing obligations to citizens and creditors in accordance with the County's fund designation and fiscal policies.
- The County's total net assets increased by \$2,043,355.
- ~~As of the close of the current fiscal year, Orange County's governmental funds reported combined ending fund balances of \$16,925,736. Of this amount, \$13,465,695 is unreserved fund balance available for use within the County's fund designation.~~
- As of September 30, 2008, unreserved, undesignated fund balance for the General Fund was \$12,786,131 or 28.8% of the total General Fund budgeted expenditures and other financing uses.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Orange County's assets and liabilities with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Orange County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

**Fund financial statements** – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the County are categorized as governmental funds or fiduciary funds.

**Governmental 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 fund financial statements focus on *current sources and uses 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 a government’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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

Orange County maintains five individual governmental funds. Information is presented separately in the governmental fund statement of revenues, expenditures, and changes in fund balances for General Fund and Road and Bridge Fund both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

Orange County adopts an annual appropriated budget for its General Fund and 4 other funds. Budgetary comparison statements have been provided for the General Fund and Road and Bridge Fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 11 – 12 of this report.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support Orange County’s own programs.

The basic fiduciary fund financial statements can be found on page 19 of this report.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 37 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements. The combining fund statements and schedules for nonmajor funds are presented following the notes to the financial statements beginning on page 38 of this report.

## GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

### Governmental Activities:

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of Orange County, assets exceeded liabilities by \$52,025,429 as of September 30, 2008.

A portion of the County's assets, \$32,628,338, reflects its investments in capital assets (e.g., land, buildings, equipment, and construction in progress), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide service to citizens; consequently, 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.

### ORANGE COUNTY'S NET ASSETS

	Governmental Activities	
	2008	2007
Current and other assets	\$ 28,360,567	\$ 24,792,009
Capital assets	34,173,338	33,535,143
Total assets	<u>62,533,905</u>	<u>58,327,152</u>
Noncurrent liabilities	3,649,046	3,721,860
Other liabilities	6,859,430	4,623,218
Total liabilities	<u>10,508,476</u>	<u>8,345,078</u>
Net assets:		
Invested in capital assets, net of related debt	32,628,338	31,913,940
Restricted	3,460,041	4,079,145
Unrestricted	<u>15,937,050</u>	<u>13,988,989</u>
Total net assets	<u>\$ 52,025,429</u>	<u>\$ 49,982,074</u>

An additional portion of the County's net assets \$3,460,041, represents resources that are subject to external restriction on how they may be used. The remaining balance, \$15,937,050, of unrestricted net assets may be used to meet the County's ongoing obligation to citizens and creditors in accordance with the County's fund designation and fiscal policies. The overall financial condition of the County improved by \$2,043,355 this year.

As of September 30, 2008, the County has positive balances in both categories of net assets, for the County as a whole, and for its governmental funds.

**Analysis of the County's Operations** – The following table provides a summary of the County's operations for the year ended September 30, 2008.

**ORANGE COUNTY'S CHANGES IN NET ASSETS**

	Governmental Activities	
	2008	2007
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 7,057,700	\$ 11,317,085
Operating grants and contributions	6,436,214	3,182,410
Capital grants and contributions	-	78,025
General revenues:		
Property taxes	22,891,107	21,770,144
Other taxes	4,272,142	3,732,770
Investment earnings	844,366	1,347,747
Other	1,120,843	731,396
Total revenues	<u>42,622,372</u>	<u>42,159,577</u>
<b>EXPENSES</b>		
General government	11,793,759	16,500,525
Legal	6,220,661	6,358,211
Public works	5,885,434	5,365,476
Social services	6,420,751	2,989,678
Public safety	10,180,535	10,433,472
Interest on long-term debt	77,877	95,284
Total expenses	<u>40,579,017</u>	<u>41,742,646</u>
<b>CHANGE IN NET ASSETS</b>	2,043,355	416,931
<b>NET ASSETS, BEGINNING</b>	49,982,074	31,053,569
<b>PRIOR PERIOD ADJUSTMENT</b>	-	18,511,574
<b>NET ASSETS, ENDING</b>	<u>\$ 52,025,429</u>	<u>\$ 49,982,074</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

*Governmental funds* – The focus of the Orange County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing 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.

At the end of the current fiscal year, the Orange County's governmental funds reported combined ending fund balances of \$16,925,736. Approximately 79.6% of this total amount (\$13,465,695) constitutes unreserved fund balance. The remaining \$3,460,041 of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for other items. The actual increase to fund balance for the General Fund was \$962,324 for fiscal year 2008.

In the General Fund, the variance in actual revenue received compared to the budgeted amount was (\$4,282,160). Sales taxes collected were \$868,002 more than budget. Other governmental support was \$5,733,664 less than expected.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget, final amended budget and actual revenues and expenditures are briefly summarized below:

- Actual revenues were less than the budgeted revenues by \$4,282,160.
- Actual revenues exceeded actual expenditures by \$940,916.
- Actual expenditures were under the final budgeted amount by \$9,047,708.

## **CAPITAL ASSETS**

Orange County's investment in capital assets for its governmental activities as of September 30, 2008, amounts to \$34,173,338 (net of accumulated depreciation). This investment in capital assets included land, building, equipment and improvements (other than buildings). Major capital asset events occurring during the current fiscal year included the following:

- Capitalized \$359,943 in a Maintenance/Storage Building;
- Capitalized \$268,996 in an Aircraft Hangar;
- Capitalized \$706,040 in Road and Bridge equipment;
- Capitalized \$365,248 in Sheriff's Department equipment; and
- Capitalized \$244,802 in Court Administration.



**ORANGE COUNTY'S CAPITAL ASSETS  
(net of depreciation)**

	Governmental Activities	
	2008	2007
Land	\$ 1,438,146	\$ 1,438,146
Buildings	17,732,126	16,624,216
Equipment	10,980,738	9,809,750
Infrastructure	27,286,354	27,286,354
Less: accumulated depreciation	( 23,264,026)	( 21,623,323)
Total	<u>\$ 34,173,338</u>	<u>\$ 33,535,143</u>

Additional information on the County's capital assets can be found in Note 4 on page 31 of this report.

**DEBT ADMINISTRATION**

At the end of the current fiscal year, Orange County had total bonded debt outstanding of \$1,545,000. The full amount is backed by the full faith and credit of the County.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- Estimated revenue for fiscal year 2009 is \$36,291,030 for General Fund, and estimated expenditures are \$40,366,942. There will be a decrease in the tax rate to \$51,700.

All of these factors were considered in preparing Orange County's budget for the 2009 fiscal year.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of Orange County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's office, 123 South Sixth Street, Orange, Texas 77630.

**BASIC  
FINANCIAL STATEMENTS**

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# ORANGE COUNTY, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2008

	<u>Primary Government Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,023,966
Investments	18,241,411
Receivables (net of allowances for uncollectibles)	
Property taxes	1,960,455
Sales tax receivable	729,525
Adjudicated fines	675,786
Other receivable	43,448
Due from other governments	3,685,976
Capital assets (net of accumulated depreciation)	
Land	1,438,146
Buildings and improvements	11,095,848
Machinery and equipment	4,067,466
Infrastructure	17,571,878
Total assets	<u>62,533,905</u>
<b>LIABILITIES</b>	
Accounts payable	2,576,094
Due to other governments	1,116,960
Due to beneficiaries	1,065,254
Unearned revenue	710,711
Accrued salaries and payroll liabilities	1,383,090
Accrued interest	7,321
Noncurrent liabilities:	
Due within one year	1,683,557
Due in more than one year	1,965,489
Total liabilities	<u>10,508,476</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	32,628,338
Restricted	3,460,041
Unrestricted	15,937,050
Total net assets	<u>\$ 52,025,429</u>

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

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**ORANGE COUNTY, TEXAS**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Primary Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 11,793,759	\$ 2,133,303	\$ 5,344,580	\$( 4,315,876)
Legal	6,220,661	3,977,535	401,127	( 1,841,999)
Public works	5,885,434	124,628	261,922	( 5,498,884)
Social services	6,420,751	11,301	423,461	( 5,985,989)
Public safety	10,180,535	810,933	5,124	( 9,364,478)
Interest on long-term debt	<u>77,877</u>	<u>-</u>	<u>-</u>	<u>( 77,877)</u>
Total governmental activities	<u>40,579,017</u>	<u>7,057,700</u>	<u>6,436,214</u>	<u>( 27,085,103)</u>
General revenues:				
Taxes:				
				22,432,358
				458,749
				4,272,142
				844,366
				<u>1,120,843</u>
				<u>29,128,458</u>
				2,043,355
				<u>49,982,074</u>
				<u>\$ 52,025,429</u>

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

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# ORANGE COUNTY, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

**SEPTEMBER 30, 2008**

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 513,022	\$ -	\$ 168,128	\$ 681,150
Investments	18,009,532	-	231,879	18,241,411
Sales tax receivable	729,525	-	-	729,525
Taxes receivable, net	1,808,723	62,255	89,477	1,960,455
Adjudicated fines receivable	675,786	-	-	675,786
Other receivables	43,448	-	-	43,448
Due from other funds	78,705	910,287	-	988,992
Receivable from other governments	3,600,587	85,389	-	3,685,976
Total assets	25,459,328	1,057,931	489,484	27,006,743
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	1,801,408	434,027	37,194	2,272,629
Payable to other governments	1,116,960	-	-	1,116,960
Due to other funds	910,287	-	78,705	988,992
Due to beneficiaries	1,065,254	-	-	1,065,254
Deferred revenue	3,117,135	53,432	83,515	3,254,082
Other accrued expenses	1,383,090	-	-	1,383,090
Total liabilities	9,394,134	487,459	199,414	10,081,007
Fund balances:				
Reserved	3,279,063	-	180,978	3,460,041
Unreserved	12,786,131	570,472	-	13,356,603
Unreserved, reported in non-major:				
Special revenue funds	-	-	134,907	134,907
Capital projects funds	-	-	( 25,815)	( 25,815)
Total fund balances	16,065,194	570,472	290,070	16,925,736
Total liabilities and fund balances	\$ 25,459,328	\$ 1,057,931	\$ 489,484	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	34,173,338
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,543,371
An Internal Service Fund is used by management to charge the cost of certain capital assets to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the statement of net assets.	2,039,351
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	( 3,656,367)
Net assets of governmental activities	<u>\$ 52,025,429</u>

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



## ORANGE COUNTY, TEXAS

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

#### GOVERNMENTAL FUNDS

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 19,010,278	\$ 2,135,511	\$ 1,422,936	\$ 22,568,725
Sales taxes	4,473,528	-	-	4,473,528
Other governmental support	6,461,386	-	-	6,461,386
Fees of office	4,627,408	1,924,468	-	6,551,876
Forfeitures	340,956	-	-	340,956
Interest	818,220	15,963	14,469	848,652
Other	615,445	120,453	180,590	916,488
Payments in lieu of taxes	14,537	-	-	14,537
Total revenues	<u>36,361,758</u>	<u>4,196,395</u>	<u>1,617,995</u>	<u>42,176,148</u>
<b>EXPENDITURES</b>				
Current:				
General government	11,600,522	-	165,662	11,766,184
Legal	5,992,000	-	-	5,992,000
Public works	673,754	3,991,841	-	4,665,595
Social services	5,811,799	-	547,400	6,359,199
Public safety	9,670,753	-	-	9,670,753
Debt service:				
Principal	-	-	375,000	375,000
Interest and other charges	-	-	77,877	77,877
Capital outlay	1,672,014	463,672	358,504	2,494,190
Total expenditures	<u>35,420,842</u>	<u>4,455,513</u>	<u>1,524,443</u>	<u>41,400,798</u>
<b>EXCESS REVENUES OVER EXPENDITURES</b>	<u>940,916</u>	<u>( 259,118)</u>	<u>93,552</u>	<u>775,350</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	21,408	-	-	21,408
Total other financing sources (uses)	<u>21,408</u>	<u>-</u>	<u>-</u>	<u>21,408</u>
<b>NET CHANGE IN FUND BALANCES</b>	962,324	( 259,118)	93,552	796,758
<b>FUND BALANCES, BEGINNING</b>	<u>15,102,870</u>	<u>829,590</u>	<u>196,518</u>	<u>16,128,978</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 16,065,194</u>	<u>\$ 570,472</u>	<u>\$ 290,070</u>	<u>\$ 16,925,736</u>

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

## ORANGE COUNTY, TEXAS

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2008

Net change in fund balances - total governmental funds:	\$ 796,758
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.	638,195
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	442,714
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.	375,000
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.	( 298,676)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	<u>89,364</u>
Change in net assets of governmental activities	<u>\$ 2,043,355</u>

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

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**ORANGE COUNTY, TEXAS**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

**SEPTEMBER 30, 2008**

	<u>Internal Service</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ <u>2,342,816</u>
Total current assets	<u>2,342,816</u>
 Total assets	 <u>2,342,816</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	<u>303,465</u>
Total current liabilities	<u>303,465</u>
 Total liabilities	 <u>303,465</u>
<b>NET ASSETS</b>	
Unrestricted	<u>2,039,351</u>
 Total net assets	 <u>\$ 2,039,351</u>

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

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**ORANGE COUNTY, TEXAS**

**STATEMENT OF REVENUES, EXPENSES  
CHANGES IN FUND NET ASSETS**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Internal Service</u>
<b>REVENUES</b>	
Employer contributions	\$ 3,666,921
Employee contributions	<u>602,618</u>
Total operating revenues	<u>4,269,539</u>
<b>OPERATING EXPENSES</b>	
Claims	2,382,648
Other charges	<u>1,797,527</u>
Total operating expenses	<u>4,180,175</u>
<b>OPERATING INCOME</b>	89,364
<b>CHANGE IN NET ASSETS</b>	89,364
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>1,949,987</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 2,039,351</u>

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

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**ORANGE COUNTY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2008**

	Governmental Activities - Internal Service Fund <hr/>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 4,269,539
Cash paid to suppliers for goods and services	<u>( 4,114,011)</u>
Net cash provided by operating activities	<u>155,528</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	155,528
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>2,187,288</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 2,342,816</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 89,364
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase (decrease) in liabilities:	
Accounts payable	<u>66,164</u>
Net cash provided by operations	<u>\$ 155,528</u>

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



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**ORANGE COUNTY, TEXAS**

**GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 18,774,952	\$ 18,774,952	\$ 19,010,278	\$ 235,326
Sales taxes	3,605,526	3,605,526	4,473,528	868,002
Other governmental support	1,575,258	12,195,050	6,461,386	( 5,733,664)
Payments in lieu of taxes	-	-	14,537	14,537
Fees of office	4,875,925	4,910,925	4,627,408	( 283,517)
Interest	1,104,889	1,097,889	818,220	( 279,669)
Other	60,676	59,176	615,445	556,269
Forfeiture	400	400	340,956	340,556
Total revenues	29,997,626	40,643,918	36,361,758	( 4,282,160)
<b>EXPENDITURES</b>				
Current:				
General government	14,072,462	12,935,131	11,600,522	1,334,609
Legal	6,124,505	6,298,910	5,992,000	306,910
Public works	685,934	677,133	673,754	3,379
Social services	2,194,602	12,071,334	5,811,799	6,259,535
Public safety	10,549,294	10,853,778	9,670,753	1,183,025
Capital outlay	1,034,606	1,632,264	1,672,014	( 39,750)
Total expenditures	34,661,403	44,468,550	35,420,842	9,047,708
Excess revenues over expenditures	( 4,663,777)	( 3,824,632)	940,916	4,765,548
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	-	-	21,408	21,408
Total other financing sources (uses)	-	-	21,408	21,408
<b>NET CHANGE IN FUND BALANCES</b>	( 4,663,777)	( 3,824,632)	962,324	4,786,956
<b>FUND BALANCES, BEGINNING</b>	15,102,870	15,102,870	15,102,870	-
<b>FUND BALANCES, ENDING</b>	\$ 10,439,093	\$ 11,278,238	\$ 16,065,194	\$ 4,786,956

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

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**ORANGE COUNTY, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**ROAD AND BRIDGE FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 2,103,815	\$ 2,103,815	\$ 2,135,511	\$ 31,696
Fees and fines	1,984,918	1,984,918	1,924,468	( 60,450)
Interest	95,000	95,000	15,963	( 79,037)
Other revenue	<u>79,671</u>	<u>79,671</u>	<u>120,453</u>	<u>40,782</u>
Total revenues	<u>4,263,404</u>	<u>4,263,404</u>	<u>4,196,395</u>	<u>( 67,009)</u>
<b>EXPENDITURES</b>				
Current:				
Public works	3,951,355	5,066,970	3,991,841	1,075,129
Capital outlay	<u>483,000</u>	<u>483,000</u>	<u>463,672</u>	<u>19,328</u>
Total expenditures	<u>4,434,355</u>	<u>5,549,970</u>	<u>4,455,513</u>	<u>1,094,457</u>
<b>NET CHANGE IN FUND BALANCE</b>	( 170,951)	( 1,286,566)	( 259,118)	1,027,448
<b>FUND BALANCES, BEGINNING</b>	<u>829,590</u>	<u>829,590</u>	<u>829,590</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 658,639</u>	<u>\$ ( 456,976)</u>	<u>\$ 570,472</u>	<u>\$ 1,027,448</u>

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

**ORANGE COUNTY, TEXAS**  
**FIDUCIARY FUND TYPE**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**SEPTEMBER 30, 2008**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ <u>2,971,258</u>
Total assets	\$ <u>2,971,258</u>
<b>LIABILITIES</b>	
Due to others	\$ <u>2,971,258</u>
Total liabilities	\$ <u>2,971,258</u>

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

# ORANGE COUNTY, TEXAS

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Orange, Texas, was incorporated in 1852 and is an incorporated body of the State of Texas. The County is located in the southeasternmost area of the state, with its eastern border the state line between Texas and Louisiana and its southern boundary the Gulf of Mexico. The executive branch of the County operates as Commissioners' Court, with the County Judge as chief administrative officer.

The financial statements of Orange County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for established governmental accounting and financial reporting principles. The more significant of these accounting policies are described below with subsequent pronouncements referred.

#### A. Reporting Entity

The County is an independent political subdivision of the State of Texas governed by an elected four-member Commissioners' Court and County Judge and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the County's financial reporting entity. Based on these considerations, no other entities have been included in the County's reporting entity. Additionally, as the County is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Consideration regarding the potential for inclusion of other entities, organizations, or functions in the County's financial reporting entity is based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the County is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the County's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is financially independent of other state and local governments. Additional prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The County has no business-type activities or any component units.

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

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

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

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

The ***Road and Bridge Funds*** are used to account for the operation, repair and maintenance of roads and bridges.

Additionally, the County reports the following fund types:

***Special Revenue Funds*** are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The ***Debt Service Fund*** is used to account for accumulation of resources for and the payment of long-term debt principal and interest.

***Internal Service Funds*** are used to account for the self-insurance program that provides benefits to other departments or agencies of the County.

***Agency Funds*** are used to account for assets that the County holds on behalf of others as their agent.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

### D. Assets, Liabilities and Net Assets or Equity

#### **Cash and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

(continued)



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities and Net Assets or Equity (Continued)

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

#### **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds." (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." As of September 30, 2008, the County had no amounts considered "advances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 5 percent of outstanding property taxes at September 30, 2008.

The County's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Appraisal values are established by the Appraisal District at market value and assessed at 100% of appraised value less exemptions. The County's property taxes are billed and collected by the Tax Assessor/Collector. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on property on February 1 of the subsequent calendar year.

Property taxes are prorated between operations, road and bridge, and debt service based on rates adopted for the year of the levy. For the current year, the County levied property taxes of \$0.54261 per \$100 of assessed valuation that were prorated between operations, road and bridge, mosquito control, and debt service in the amounts of \$0.45623, \$0.05155, \$0.02321 and \$0.01162, respectively. The resulting adjusted tax levies were approximately \$18.8, \$2.1, \$1.0 and \$0.5 million for operations, road and bridge, mosquito control, and debt service, respectively, based on a total adjusted taxable valuation of approximately \$3.86 billion for the 2007 tax year.

#### **Inventories**

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Net Assets or Equity (Continued)**

**Capital Assets**

Capital assets, which include land, buildings and improvements, machinery and equipment, construction in progress, and infrastructure (e.g. roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires the County to report and depreciate new infrastructure assets effective with implementation, which occurred in fiscal year 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the County. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first required for the fiscal year ending in 2007. The County has implemented the general provisions of GASB Statement No. 34 and the retroactive infrastructure provisions.

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.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Improvements	5-50
Equipment	5-20
Infrastructure (streets)	35-50

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities and Net Assets or Equity (Continued)

#### **Compensated Absences**

The County's employees earn vacation and sick leave, which may either be taken or accumulated, up to certain amounts, until paid upon resignation or retirement. All vacation and sick leave pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

The current policy for vacation pay is that vacation pay accrues as of the "annual" anniversary date of each employee. Vacation leave from 10 to 25 days per year may be earned, based on longevity. Sick leave accrues at 8 hours a month, or 12 days per year, up to a maximum paid benefit for entitlement of 30 days.

#### **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

#### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds and net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(3,656,367) difference are as follows:

Certificates of obligation	\$( 1,545,000)
Accrued interest payable	( 7,321)
Compensated absences	( 2,104,046)
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$( 3,656,367)</u>

### Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental fund and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets’ estimated useful lives as depreciation expense for the period.” The details of this \$638,195 difference are as follows:

Capital outlay	\$ 2,769,498
Depreciation expense	( 2,051,367)
Deletion of capital assets	( 79,936)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 638,195</u>

Another element of that reconciliation states, “Government funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.” The details of this \$442,714 difference are as follows:

Property taxes	\$ 160,137
Miscellaneous revenue	<u>282,577</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 442,714</u>

(continued)

2. **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**  
(Continued)

**Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities** (Continued)

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$(298,676) difference are as follows:

Compensated absences	\$( 302,186)
Interest expense	<u>3,510</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$( 298,676)</u>

3. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budget Data**

1. **Budget Policy:** The County of Orange annually adopts a budget for all revenue and expenditures as required by Texas law. All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budgets during the year.

The County Judge is, by statute, the County Budget Officer and has the responsibility of preparing the annual budget. In April of each year, preparations are begun for departments' submittals of their budget requests for the following year. During June and July, Commissioners' Court conducts informal hearings with each department head to discuss his or her budget requests, during which time the County Auditor prepares an estimate for revenue resources and compiles the requested department expenditures.

A copy of the budget is filed with the Clerk of the County Court and is available for inspection by the public. Within seven days of the filing of the budget, and as near June 30 of the current year as possible, the Commissioners' Court conducts a public hearing on the County's budget.

The Court has the authority to make such changes in the budget as, in its judgment, the facts and the situation warrant, and the interest of the taxpayers' demand, provided the amounts budgeted for current expenditures from the various funds of the County shall not exceed the balances in these funds as of October 1, plus the anticipated revenue for the current year for which the budget is made, as estimated by the County Judge with the assistance of the County Auditor. Upon final approval of the budget by the Commissioners' Court, no expenditures of the funds of the County are made, except in substantive compliance with the budget.

(continued)

### 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

#### Budget Data (Continued)

Commissioners' Court may authorize the County Auditor to transfer an existing budget surplus during the year to any fund not otherwise legally obligated.

2. Encumbrances: Encumbrance accounting is a system whereby purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable available funds. Year-end encumbrances are not included with final annual expenditures, but instead are carried over as restrictions of the following year's expenditures to which they relate. Any goods ordered, but delivered after the fiscal year are recorded as an expense of the new fiscal year.
3. Budget Basis: The budget is adopted whereby certain designated-purpose fee revenue and expenditures are not budgeted by the Commissioners' Court. Also, according to Commissioners' Court policy, encumbered (i.e., committed, but unrealized) expenditures are combined with actual expenditures for purposes as budget-compliance measurements.

### 4. DETAILED NOTES ON ALL FUNDS

#### A. Cash and Investments

The Public Funds Investment Act (Government Code Chapter 22.56) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity; (2) portfolio diversification; (3) allowable investments; (4) acceptable risk levels; (5) expected rates of return; (6) maximum allowable stated maturity of portfolio investments; (7) maximum average dollar-weighted maturity based on the stated maturity date for the portfolio; (8) investment staff quality and capabilities; and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptances; (7) Mutual Funds; (8) investment pools; (9) guaranteed investment contracts; and (10) common trust funds. The Act also requires the County to have independent auditors perform net procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

(continued)

4. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments (Continued)

In compliance with the Public Funds Investment Act, the County has adopted a deposit and investment policy. That policy does address the following risks:

1. *Custodial Credit Risk – Deposits:* In the case of deposits, this is the risk that, in the event of bank failure, the County’s deposits may not be returned to it. As of September 30, 2008, the County had a bank balance of \$6,154,597. Of this amount, \$5,904,597 was collateralized with securities held by the pledging financial institution and the remaining deposits were covered by FDIC insurance.
2. *Credit Risk:* It is the County’s policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The County’s investments in TexPool are rated AAAM by Standard and Poor’s Investors Service.
3. *Interest Rate Risk:* In accordance with the County’s investment policy, the County manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to 25 months or less, dependent on market conditions.
4. *Concentration of Credit Risk:* The County’s investment policy states the maximum percentage allowed for each different investment that can be used to make up the portfolio.

The County’s investments at September 30, 2008, are shown below:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Primary government:		
TexPool	\$ 18,241,411	42
Total fair value	\$ 18,241,411	

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**B. Receivables**

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Road and Bridge</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Sales taxes	\$ 729,525	\$ -	\$ -	\$ 729,525
Property taxes	1,808,723	62,255	89,477	1,960,455
Adjudicated fines	2,252,621	-	-	2,252,621
Other	43,448	-	-	43,448
Due from other governments	<u>3,600,587</u>	<u>85,389</u>	<u>-</u>	<u>3,685,976</u>
Gross receivables	8,434,904	147,644	89,477	8,672,025
Less: allowance for uncollectibles	<u>1,576,835</u>	<u>-</u>	<u>-</u>	<u>1,576,835</u>
Net total receivables	<u>\$ 6,858,069</u>	<u>\$ 147,644</u>	<u>\$ 89,477</u>	<u>\$ 7,095,190</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is 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 deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General fund:			
Delinquent property taxes receivable	\$ 1,730,638	\$ -	\$ 1,730,638
Adjudicated fines	675,786	-	675,786
Grant revenues	<u>-</u>	<u>710,711</u>	<u>710,711</u>
Total general fund	<u>2,406,424</u>	<u>710,711</u>	<u>3,117,135</u>
Road and bridge fund:			
Delinquent property taxes receivable	<u>53,432</u>	<u>-</u>	<u>53,432</u>
Total general fund	<u>53,432</u>	<u>-</u>	<u>53,432</u>
Nonmajor governmental funds:			
Delinquent property taxes receivable	<u>83,515</u>	<u>-</u>	<u>83,515</u>
Governmental funds	<u>\$ 2,543,371</u>	<u>\$ 710,711</u>	<u>\$ 3,254,082</u>

(continued)



4. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 1,438,146	\$ -	\$ -	\$ 1,438,146
Total capital assets not being depreciated	<u>1,438,146</u>	<u>-</u>	<u>-</u>	<u>1,438,146</u>
Capital assets, being depreciated:				
Buildings and improvements	16,624,216	1,107,910	-	17,732,126
Furniture, fixtures and equipment	9,809,750	1,661,588	490,600	10,980,738
Infrastructure	<u>27,286,354</u>	<u>-</u>	<u>-</u>	<u>27,286,354</u>
Total capital assets being depreciated	<u>53,720,320</u>	<u>2,769,498</u>	<u>490,600</u>	<u>55,999,218</u>
Less accumulated depreciation:				
Buildings	6,213,745	422,533	-	6,636,278
Furniture, fixtures and equipment	6,465,537	858,399	410,664	6,913,272
Infrastructure	<u>8,944,041</u>	<u>770,435</u>	<u>-</u>	<u>9,714,476</u>
Total accumulated depreciation	<u>21,623,323</u>	<u>2,051,367</u>	<u>410,664</u>	<u>23,264,026</u>
Total capital assets, being depreciated, net	<u>32,096,997</u>	<u>718,131</u>	<u>79,936</u>	<u>32,735,192</u>
Governmental activities capital assets, net	<u>\$ 33,535,143</u>	<u>\$ 718,131</u>	<u>\$ 79,936</u>	<u>\$ 34,173,338</u>

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

Governmental activities:	
General administration	\$ 93,658
Public works	1,183,847
Legal	176,003
Social services	36,492
Public safety	<u>561,367</u>
Total depreciation expense - governmental activities	<u>\$ 2,051,367</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of September 30, 2007, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental	\$ 78,705
Road and bridge	General fund	<u>910,287</u>
Total		<u>\$ 988,992</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**E. Pension Plan Obligations**

**Plan Description**

Orange County provides retirement, disability, and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 586 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Funding Policy**

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer contributed using the actuarially determined rate of 10.60% for the months of the accounting year in 2008, and 10.61% for the months of the accounting year in 2007.

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

**G. Funding Pension Cost**

For the employer's accounting year ending September 30, 2008, the annual pension cost for the TCDRS plan for its employees was \$1,866,736 and the actual contributions were \$1,866,736.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2005 and December 31, 2006, the basis for determining the contribution rates for calendar years 2007 and 2008. The December 31, 2006, actuarial valuation is the most recent valuation.

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	12/31/05	12/31/06	12/31/07
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period in years	20	15	15
Asset valuation method	long-term appreciation with adjustment	SAF: 10-yr smoothed value ESF: fund value	SAF: 10-yr smoothed value ESF: fund value
Actuarial Assumptions:			
Investment return	8.00%	8.00%	8.00%
Projected salary increases	5.3%	5.3%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**G. Funding Pension Cost (Continued)**

**Trend Information for the  
Retirement Plan for the Employees of Orange County**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/06	\$ 1,574,562	100%	\$ -
09/30/07	1,662,225	100%	-
09/30/08	1,866,736	100%	-

**Schedule of Funding Progress for the Retirement Plan  
For the Employees of Orange County**

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2005	\$ 39,668,334	\$ 46,254,624	\$ 6,586,290	85.76%	\$ 15,018,117	43.86%
2006	44,164,993	49,881,913	5,716,920	88.54%	15,532,284	36.81%
2007	47,701,184	53,478,693	5,777,509	89.20%	15,993,617	36.12%

**H. Post Employment Benefit Disclosures**

In addition to the pension benefits described in Note 4, the County provides postretirement health care benefits for retirees who meet all retirement eligibility requirements. Currently, 198 retirees meet those eligibility requirements. The County does not provide health care benefits for dependents of retirees. However, retirees have the option of purchasing dependent coverage through the County.

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Restricted Assets**

The reservations of fund balance in the General Fund are as follows:

Foster Care	\$	194,380
Adult probation		318,724
Voter registration		5,478
South East Texas Auto Theft Task Force		62,209
Payroll		4,888
Sewer/Septic Grant		19,840
Law Library		100,588
District Attorney Drug Forfeiture		191,889
Hot Check Collection		2,398
DWI Audio		51,911
Contributions		9,793
District Clerk Records Management		64,486
Child Support Title IV-E		138,980
Federal Drug Seizure		161,681
District Attorney Federal Drug Seizure		26,748
W.I.C. Grant		22,296
TCDP ORCA Grant		40,572
CSBG Block Grant		12,667
Law Enforcement Training		26,153
Bail Bonds		59,162
County State Drug Seizure		18,831
Child Welfare Jury		21,788
County Clerk Records Management		207,247
Community Corrections		291,809
Constable Precinct #1 - Drug Seizure		67,051
Indigent Defense		208,729
Courthouse Security		319,432
Records Management		82,375
Tax Office		55,533
Treasury Forfeiture		188,900
Family Protection Fees		39,300
Justice of the Peace Technology		82,981
Probate Education		13,895
Stark Foundation Grant		39,658
Gambling and Child Porn Forfeiture		<u>126,691</u>
Total Restricted Assets	\$	<u>3,279,063</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

J. Long-term Debt

The following is a summary of general long-term debt activity of Orange County, Texas for the year ended September 30, 2008:

	Date of Issue	Amount of Debt	Interest Rate	Balance 09/30/07	Additions	Deletions	Balance 09/30/08	Due Within One Year
Certificate of obligation	01/15/94	\$ 6,000,000	5.3%-4.25%	\$ 1,920,000	\$ -	\$ 375,000	\$ 1,545,000	\$ 400,000
Compensated absences				<u>1,801,860</u>	<u>1,585,743</u>	<u>1,283,557</u>	<u>2,104,046</u>	<u>1,283,557</u>
Total				<u>\$ 3,721,860</u>	<u>\$ 1,585,743</u>	<u>\$ 1,658,557</u>	<u>\$ 3,649,046</u>	<u>\$ 1,683,557</u>

	<u>Certificates of Obligation</u>
Balance, October 1, 2007	\$ 1,920,000
Debt retired this year	<u>375,000</u>
Balance, September 30, 2008	<u>\$ 1,545,000</u>

(Certificates due in increments from \$125,000 beginning in 1997 to \$450,000 in 2012, at an interest rate of 4.25% to 5.30%).

In August 1999, Orange County used \$1,194,433 of remaining Capital Projects Funds to establish an irrevocable trust fund with an escrow agent for the purpose of providing monies for the repayment of \$1,205,000 of the 1994 Certificates of Obligation upon their call dates. This transaction having met the requirements of a defeasance of \$1,205,000, that amount was removed from the County's general ledger.

The annual requirements to amortize all debt outstanding as of September 30, 2008, are as follows:

<u>Year Ending September 30,</u>	<u>Certificates of Obligation</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 400,000	\$ 58,563	\$ 458,563
2010	425,000	39,631	464,631
2011	450,000	21,038	471,038
2012	<u>270,000</u>	<u>5,738</u>	<u>275,738</u>
Totals	<u>\$ 1,545,000</u>	<u>\$ 124,970</u>	<u>\$ 1,669,970</u>

(continued)

#### 4. DETAILED NOTES ON ALL FUNDS (Continued)

##### **K. Risk Management**

Various claims and lawsuits are pending against the County. The evaluation of the County management is that any liability to the County relating to such claims and lawsuits will not have a material impact on the County's financial position.

The County participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the County has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at September 30, 2008, may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

##### **L. Commitments and Contingencies**

The County has received Federal and State financial assistance in the form of grants and entitlements that are subject to review and audit by the grantor agencies. Such audits should result in requests for reimbursement by the grantor agencies for expenditures disallowed under terms and conditions specified in the grant agreements. In the opinion of County management, such allowances, if any, will not be significant to the County's financial position.

**COMBINING AND INDIVIDUAL  
FUND STATEMENTS AND SCHEDULES**



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## **NONMAJOR GOVERNMENTAL FUNDS**

*Special Revenue Funds* are used to account for specific revenues that are legally restricted to expenditure for particular purposes. These funds are as follows:

*Mosquito Control*

*Economic Development Corporation*

*Debt Service Funds* are used to account for the accumulation of resources for and the payment of, general long-term debt principal and interest.

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**ORANGE COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2008**

	<u>Mosquito Control</u>	<u>Economic Development Corporation</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 168,128	\$ -	\$ -	\$ 168,128
Investments	-	-	231,879	231,879
Taxes receivable, net	<u>47,305</u>	<u>-</u>	<u>42,172</u>	<u>89,477</u>
Total assets	<u>\$ 215,433</u>	<u>\$ -</u>	<u>\$ 274,051</u>	<u>\$ 489,484</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 37,194	\$ -	\$ -	\$ 37,194
Due to other funds	-	25,815	52,890	78,705
Deferred revenue	<u>43,332</u>	<u>-</u>	<u>40,183</u>	<u>83,515</u>
Total liabilities	<u>80,526</u>	<u>25,815</u>	<u>93,073</u>	<u>199,414</u>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Debt service	-	-	180,978	180,978
<b>Unreserved, reported in:</b>				
Special revenue funds	<u>134,907</u>	<u>( 25,815)</u>	<u>-</u>	<u>109,092</u>
Total fund balances	<u>134,907</u>	<u>( 25,815)</u>	<u>180,978</u>	<u>290,070</u>
Total liabilities and fund balances	<u>\$ 215,433</u>	<u>\$ -</u>	<u>\$ 274,051</u>	<u>\$ 489,484</u>

**ORANGE COUNTY, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Mosquito Control</u>	<u>Economic Development Corporation</u>	<u>Debt Service</u>	<u>Total Other Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 964,187	\$ -	\$ 458,749	\$ 1,422,936
Interest	6,250	-	8,219	14,469
Other	<u>28,825</u>	<u>151,765</u>	<u>-</u>	<u>180,590</u>
Total revenues	<u>999,262</u>	<u>151,765</u>	<u>466,968</u>	<u>1,617,995</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	165,662	-	165,662
Social services	547,400	-	-	547,400
Capital outlay	358,504	-	-	358,504
Debt service:				
Principal	-	-	375,000	375,000
Interest and other charges	<u>-</u>	<u>-</u>	<u>77,877</u>	<u>77,877</u>
Total expenditures	<u>905,904</u>	<u>165,662</u>	<u>452,877</u>	<u>1,524,443</u>
<b>NET CHANGE IN FUND BALANCES</b>	93,358	( 13,897)	14,091	93,552
<b>FUND BALANCES, BEGINNING</b>	<u>41,549</u>	<u>( 11,918)</u>	<u>166,887</u>	<u>196,518</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 134,907</u>	<u>\$( 25,815)</u>	<u>\$ 180,978</u>	<u>\$ 290,070</u>

## **FIDUCIARY FUNDS**

***District Attorney*** – This fund is used to account for restitution payable to victims and temporarily holds fees collected on felony hot checks.

***Justices of the Peace*** – This fund is used to account for fees, fines and funds related to civil cases. Fees and fines are reportable to the County Treasurer, and a portion is disbursed by the Treasurer to the State.

***County Clerk*** – This fund is used to account for all fees and fines collected by the County Clerk prior to remittance to the Treasurer and the State of Texas.

***District Clerk*** – This fund is used to account for monies collected for court costs, fines and fees as agent for the County and the State of Texas.

***Tax Assessor Collector*** – This fund is used to account for monies collected from property taxes.

***Child Support*** – This fund is used to account for monies collected for beneficiaries.

***Probation Officer*** – This fund is used to account for monies collected for probate purposes.

***Sheriff*** – This fund is used to account for inmate funds in trust during incarceration, monies collected from commissary purchases, and fee collections by the Sheriff Department, which are reportable to the County Treasurer.

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**ORANGE COUNTY, TEXAS**

**FIDUCIARY FUND TYPE**

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**

**SEPTEMBER 30, 2008**

	District Attorney	Justices of the Peace	County Clerk	District Clerk	Tax Assessor Collector	Child Support	Probation Officer	Sheriff	Total
<b>ASSETS</b>									
Cash	\$ <u>783</u>	\$ <u>58,563</u>	\$ <u>1,424,755</u>	\$ <u>1,207,062</u>	\$ <u>46,091</u>	\$ <u>812</u>	\$ <u>126,649</u>	\$ <u>106,543</u>	\$ <u>2,971,258</u>
Total assets	\$ <u>783</u>	\$ <u>58,563</u>	\$ <u>1,424,755</u>	\$ <u>1,207,062</u>	\$ <u>46,091</u>	\$ <u>812</u>	\$ <u>126,649</u>	\$ <u>106,543</u>	\$ <u>2,971,258</u>
<b>LIABILITIES</b>									
Due to others	\$ <u>783</u>	\$ <u>58,563</u>	\$ <u>1,424,755</u>	\$ <u>1,207,062</u>	\$ <u>46,091</u>	\$ <u>812</u>	\$ <u>126,649</u>	\$ <u>106,543</u>	\$ <u>2,971,258</u>
Total liabilities	\$ <u>783</u>	\$ <u>58,563</u>	\$ <u>1,424,755</u>	\$ <u>1,207,062</u>	\$ <u>46,091</u>	\$ <u>812</u>	\$ <u>126,649</u>	\$ <u>106,543</u>	\$ <u>2,971,258</u>



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# **SINGLE AUDIT**

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PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

To the Honorable County Judge  
and Commissioners' Court  
Orange County, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County, Texas (the "County") as of and for the year ended September 30, 2008, and have issued our report thereon dated June 30, 2009. 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.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the County in a separate letter dated June 30, 2009.

This report is intended solely for the information and use of management, the audit committee, others within the County, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Patillo, Brown & Hill, LLP*

June 30, 2009



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Honorable County Judge  
and Commissioners' Court  
Orange County, Texas

**Compliance**

We have audited the compliance of Orange County, Texas (the "County") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The County's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about the County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

## Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, others within the County, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Pattillo, Brown & Hill, L.L.P.*

June 30, 2009

**ORANGE COUNTY, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Federal Grantor Agency/ Pass-through Agency	CFDA Number	Pass-through Grantor's Number	Disbursements/ Expenditures
<u>U. S. Department of Agriculture</u>			
Passed through the Texas Department of State Health Services:			
Women, Infants and Children	10.557	7660018264-200501	\$ <u>22,296</u>
Total Passed through the Texas Department of State Health Services			<u>22,296</u>
Total U. S. Department of Agriculture			<u>22,296</u>
<u>U. S. Department of Housing and Urban Development</u>			
Passed through Office of Rural Community Affairs:			
Community Development Block Grant	14.228	724589	189,606
Community Development Block Grant	14.228	725631	53,843
Community Development Block Grant	14.228	727097	<u>346,825</u>
Total Passed through Office of Rural Community Affairs			<u>590,274</u>
Total U. S. Department of Housing and Urban Development			<u>590,274</u>
<u>U. S. Department of Justice</u>			
Direct program			
IRS Equitable Sharing Program	16.000	74-6001826	<u>602,718</u>
Total Direct programs			<u>602,718</u>
Total U. S. Department of Justice			<u>602,718</u>
<u>U. S. Elections Assistance Commission</u>			
Passed through Texas Secretary of State:			
General HAVA Compliance	90.401	78656	<u>11,381</u>
Total Passed through Texas Secretary of State			<u>11,381</u>
Total U. S. Elections Assistance Commission			<u>11,381</u>

(continued)



## ORANGE COUNTY, TEXAS

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal Grantor Agency/ Pass-through Agency	CFDA Number	Pass-through Grantor's Number	Disbursements/ Expenditures
<u>U. S. Department of Health and Human Services</u>			
Passed through Texas Department of State Health Services:			
Infectious Diseases Surveillance and EPI Branch	93.283	2007-022464-001	\$ 82,273
OPHP/LPHS	93.991	2008-024496-001	<u>44,091</u>
Total Passed through Texas Department of State Health Services			<u>126,364</u>
Passed through Southeast Texas Regional Planning Commission:			
Social Services Block Grant	93.667	529-06-0433-00001	<u>259,031</u>
Total Passed through Southeast Regional Planning Commission			<u>259,031</u>
Total U. S. Department of Health and Human Services			<u>385,395</u>
<u>U. S. Department of Homeland Security</u>			
Passed through Texas Department of Public Safety			
Division of Emergency Management:			
Hazard Mitigation Grant - Hurricane Rita	97.039	FEMA 1606-DR	3,602,937
Homeland Security Grant Program	97.067	2007-GE-T7-0024	48,110
Homeland Security Grant Program	97.067	2006-GE-T6-0068	29,214
Emergency Management Performance Grant	97.042	07TX-EMPG-088	<u>13,626</u>
Total Passed through Texas Department of Public Safety Division of Emergency Management			<u>3,693,887</u>
Total U. S. Department of Homeland Security			<u>3,693,887</u>
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ <u>5,305,951</u></b>

**ORANGE COUNTY, TEXAS**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**SEPTEMBER 30, 2008**

**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Orange County, Texas. The County's reporting entity is defined in Note 1 to the County's financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

**2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the County's financial statements.

**ORANGE COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Summary of Auditors' Results**

Type of report on financial statements	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency identified that are not considered to be material weakness(es)?	None reported
Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency identified that are not considered to be material weakness(es)?	None reported
Noncompliance which is material to the basic financial statements	None
Type of report on compliance with major programs	Unqualified
Findings and questioned costs for federal awards as defined in Section 501(a), OMB Circular A-133	None
Dollar threshold considered between Type A and Type B federal programs	\$300,000
Low risk auditee statement	The County was classified as a low-risk auditee in the context of OMB Circular A-133
Major federal programs	Hazard Mitigation Grant, #97.039 Community Development Block Grant, #14.228

**Findings Relating to the Financial Statements Which are  
Required to be Reported in Accordance With Generally  
Accepted Government Auditing Standards**

None

**Findings and Questioned Costs for Federal Awards**

None

**ORANGE COUNTY, TEXAS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Findings Relating to the Financial Statements Which are Required to be Reported  
in Accordance With Generally Accepted Government Auditing Standards**

**Item 2007-1:**

Condition: The County was not was not properly recording liabilities for items that were encumbered at year-end, received prior to year-end, but not paid for until after year-end.

Effect: Accounts payable and expenditures were materially understated at year-end.

Cause: County personnel were unaware that encumbrances were not reflected on the financial statements.

Recommendation: The County needs to put controls in place that will ensure that all liabilities and expenditures are properly recorded on the County's financial statements.

Management's Response: We will implement a new procedure at year-end to ensure items received before year-end are properly accounted for.

Current Status: This matter has been resolved.

**Item 2007-2:**

Condition: Forfeiture funds and cash bond money are not being properly recorded as a liability while the funds are being held for other entities and individuals. Instead, these amounts were being recorded as revenues when collected and then being expensed when the amount payable to others was determined.

Effect: Revenues and expenditures were being overstated and the liability for the funds held for others was understated at year-end.

Cause: County personnel were unaware of the specific principles applicable to these transactions.

Recommendation: The liability for the funds held for other individuals or entities should be reconciled to the cash held on a regular basis.

Management's Response: All funds have been reconciled to cash. We will make every effort to code all revenues and expenditures to the proper line item.

Current Status: This matter has been resolved.

**(continued)**

ORANGE COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Findings and Questioned Costs for Federal Awards

Item 2007-3: Home Investment Partnership Program, Federal CFDA # 14.239

Compliance Requirement: Subrecipient Monitoring

Criteria: According to OMB Circular A-133 a pass-through entity is responsible for the following:

Award Identification – At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.

During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Pass-through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Condition: The County was unable to provide documentation that any subrecipient monitoring procedures were performed for this grant program.

(continued)

ORANGE COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Findings and Questioned Costs for Federal Awards (Continued)

Effect: The cost is subject to disallowance and is, therefore, considered a questioned cost.

Cause: County personnel were unaware that subrecipient monitoring procedures were applicable to this program.

Recommendation: Management should emphasize the importance of being knowledgeable about the compliance requirements presented in OMB Circular A-133 and ensure that procedures are in place to address compliance requirements applicable to the grant funding that is received.

Management's Response: We will make every effort to comply with the requirements.

Current Status: This matter has been resolved.

**Item 2007-4: All major programs**

Compliance Requirement: Suspension and debarment

Criteria: Recipients of federal and state awards are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. The County should have control procedures in place to verify that each entity it contracts with under covered transactions or makes subawards to is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Statement of Condition: We identified certain instances in which no documentation could be provided by the County for the verification of subrecipient or vendor suspension or debarment status.

Effect: The County does not have controls in place to prevent it from contracting with or making subawards to parties that are suspended or debarred.

(continued)

**ORANGE COUNTY, TEXAS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
(Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Findings and Questioned Costs for Federal Awards (Continued)**

<u>Recommendation:</u>	Implement a policy to verify that each entity it contracts with or makes subawards to is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Additionally, management or representatives of management should periodically conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.
<u>Management's Response:</u>	The County is presently working on a policy to verify that each vendor is not suspended or debarred.
<u>Current Status:</u>	This matter has been resolved.