

ORANGE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2009**

ORANGE COUNTY, TEXAS

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FINANCIAL SECTION



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

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, 2009, 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.

As described in Note 3, the County has not implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These financial statements recognize the cost of postemployment benefits, other than retirement benefits, on a pay-as-you-go basis. Accounting principles generally accepted in the United States of America require that annual required contributions related to postemployment benefits, other than retirement benefits, attributable to employee services already rendered be recorded as expenses as employees earn the benefits, which, if not funded would increase the liabilities, reduce the net assets, and change the expenses of the governmental activities, and the proprietary fund. The effects on these financial statements, although not reasonably determinable, are presumed to be material.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the proprietary fund of Orange County, Texas, as of September 30, 2009, 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 addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of Orange County, Texas, as of December 31, 2009, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and Road and Bridge Fund 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, 2010, 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 nonmajor financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining 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.

Pattillo Brown & Hill, L.L.P.

June 30, 2010

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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, 2009. 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, 2009, by \$49,425,009 (net assets). Of this amount, \$12,877,979 (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 decreased by \$3,176,357.
- As of the close of the current fiscal year, Orange County's governmental funds reported combined ending fund balances of \$14,154,626. Of this amount, \$10,391,033 is unreserved fund balance available for use within the County's fund designation.
- As of September 30, 2009, unreserved, undesignated fund balance for the General Fund was \$9,111,246 or 25% 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 \$49,425,009 as of September 30, 2009.

A portion of the County's assets, \$33,149,572, 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	
	2009	2008
Current and other assets	\$ 23,391,946	\$ 28,360,567
Capital assets	<u>34,294,572</u>	<u>34,173,338</u>
Total assets	<u>57,686,518</u>	<u>62,533,905</u>
Noncurrent liabilities	4,999,395	3,649,046
Other liabilities	<u>3,262,114</u>	<u>6,859,430</u>
Total liabilities	<u>8,261,509</u>	<u>10,508,476</u>
Net assets:		
Invested in capital assets, net of related debt	33,149,572	32,628,338
Restricted	3,397,458	3,460,041
Unrestricted	<u>12,877,979</u>	<u>15,937,050</u>
Total net assets	<u>\$ 49,425,009</u>	<u>\$ 52,025,429</u>

An additional portion of the County's net assets \$3,397,458, represents resources that are subject to external restriction on how they may be used. The remaining balance, \$12,877,979, 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 decreased by \$3,176,357 this year.

As of September 30, 2009, 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, 2009.

ORANGE COUNTY'S CHANGES IN NET ASSETS

	Governmental Activities	
	2009	2008
REVENUES		
Program revenues:		
Charges for services	\$ 7,781,983	\$ 7,057,700
Operating grants and contributions	21,780,232	6,436,214
Capital grants and contributions	-	-
General revenues:		
Property taxes	23,482,817	22,891,107
Other taxes	5,008,967	4,272,142
Investment earnings	185,755	844,366
Other	<u>2,730,906</u>	<u>1,120,843</u>
Total revenues	<u>60,970,660</u>	<u>42,622,372</u>
EXPENSES		
General government	16,677,767	11,793,759
Legal	7,126,601	6,220,661
Public works	5,262,562	5,885,434
Social services	23,594,773	6,420,751
Public safety	11,427,668	10,180,535
Interest on long-term debt	<u>57,646</u>	<u>77,877</u>
Total expenses	<u>64,147,017</u>	<u>40,579,017</u>
CHANGE IN NET ASSETS	(3,176,357)	2,043,355
NET ASSETS, BEGINNING	52,025,429	49,982,074
PRIOR PERIOD ADJUSTMENT	<u>575,937</u>	<u>-</u>
NET ASSETS, ENDING	<u>\$ 49,425,009</u>	<u>\$ 52,025,429</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 \$14,154,626. Approximately 73% of this total amount (\$10,391,033) constitutes unreserved fund balance. The remaining \$3,397,458 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 decrease to fund balance for the General Fund was \$3,744,180 for fiscal year 2009.

In the General Fund, the variance in actual revenue received compared to the budgeted amount was \$23,297,930. Sales taxes collected were \$974,601 more than budget. Other governmental support was \$19,887,345 more 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 more than the budgeted revenues by \$23,297,930.
- Actual revenues were less than actual expenditures by \$3,744,180.
- Actual expenditures were over the final budgeted amount by \$21,502,774.

CAPITAL ASSETS

Orange County's investment in capital assets for its governmental activities as of September 30, 2009, amounts to \$32,294,572 (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 \$360,534 in Land for future buildings;
- Capitalized \$734,247 in new buildings;
- Capitalized \$457,707 in Road and Bridge equipment; and
- Capitalized \$503,223 in Sheriff's Department equipment.

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

	Governmental Activities	
	2009	2008
Land	\$ 1,798,680	\$ 1,438,146
Buildings	18,466,373	17,732,126
Equipment	11,718,776	10,980,738
Infrastructure	27,286,354	27,286,354
Less: accumulated depreciation	(24,975,611)	(23,264,026)
Total	\$ 34,294,572	\$ 34,173,338

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 \$1,145,000. 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 2010 is \$38,133,402 for General Fund, and estimated expenditures are \$42,481,470. There will be an increase in the tax rate to \$57,075.

All of these factors were considered in preparing Orange County's budget for the 2010 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**

ORANGE COUNTY, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,368,003
Investments	14,578,086
Receivables (net of allowances for uncollectibles)	
Property taxes	1,861,461
Sales tax receivable	670,966
Adjudicated fines	757,313
Other receivable	51,174
Due from other governments	3,104,943
Capital assets (net of accumulated depreciation)	
Land	1,798,680
Buildings and improvements	11,366,065
Machinery and equipment	4,328,383
Infrastructure	<u>16,801,444</u>
Total assets	<u>57,686,518</u>
LIABILITIES	
Accounts payable	1,338,656
Due to other governments	1,016,464
Due to beneficiaries	1,020,355
Unearned revenue	752,748
Accrued salaries and payroll liabilities	865,089
Accrued interest	6,083
Noncurrent liabilities:	
Due within one year	954,729
Due in more than one year	<u>2,307,385</u>
Total liabilities	<u>8,261,509</u>
NET ASSETS	
Invested in capital assets, net of related debt	33,149,572
Restricted	3,397,458
Unrestricted	<u>12,877,979</u>
Total net assets	<u>\$ 49,425,009</u>

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

ORANGE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues		Primary Government Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental activities:				
General government	\$ 16,677,767	\$ 2,267,890	\$ 20,849,708	\$ 6,439,831
Legal	7,126,601	3,984,563	274,619	(2,867,419)
Public works	5,262,562	119,347	387,050	(4,756,165)
Social services	23,594,773	13,605	268,855	(23,312,313)
Public safety	11,427,668	1,396,578	-	(10,031,090)
Interest on long-term debt	57,646	-	-	(57,646)
Total governmental activities	<u>64,147,017</u>	<u>7,781,983</u>	<u>21,780,232</u>	<u>(34,584,802)</u>
General revenues:				
Taxes:				
Property taxes				23,021,029
Property taxes-debt service				461,788
Sales and use taxes				5,008,967
Investment earnings				185,755
Miscellaneous				<u>2,730,906</u>
Total general revenues				<u>31,408,445</u>
Change in net assets				(3,176,357)
Net assets, beginning				<u>52,025,429</u>
Prior period adjustment				575,937
Restated net assets,				<u>52,601,366</u>
Net assets, ending				<u>\$ 49,425,009</u>

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

ORANGE COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

	<u>General</u>	<u>Road and Bridge</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 55,554	\$ 257,134	\$ 312,688
Investments	14,340,411	-	237,675	14,578,086
Sales tax receivable	670,966	-	-	670,966
Taxes receivable, net	1,730,259	48,497	82,705	1,861,461
Adjudicated fines receivable	757,313	-	-	757,313
Other receivables	51,174	-	-	51,174
Due from other funds	-	1,272,362	162,842	1,435,204
Receivable from other governments	<u>3,094,642</u>	<u>10,301</u>	<u>-</u>	<u>3,104,943</u>
Total assets	<u>20,644,765</u>	<u>1,386,714</u>	<u>740,356</u>	<u>22,771,835</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	876,532	69,969	45,108	991,609
Payable to other governments	1,016,464	-	-	1,016,464
Due to other funds	1,370,804	-	64,400	1,435,204
Due to beneficiaries	1,020,355	-	-	1,020,355
Deferred revenue	3,174,507	36,958	77,023	3,288,488
Other accrued expenses	<u>865,089</u>	<u>-</u>	<u>-</u>	<u>865,089</u>
Total liabilities	<u>8,323,751</u>	<u>106,927</u>	<u>186,531</u>	<u>8,617,209</u>
Fund balances:				
Reserved	3,209,768	-	187,690	3,397,458
Unreserved	9,111,246	1,279,787	-	10,391,033
Unreserved, reported in non-major:				
Special revenue funds	-	-	379,247	379,247
Capital projects funds	<u>-</u>	<u>-</u>	<u>(13,112)</u>	<u>(13,112)</u>
Total fund balances	<u>12,321,014</u>	<u>1,279,787</u>	<u>553,825</u>	<u>14,154,626</u>
Total liabilities and fund balances	<u>\$ 20,644,765</u>	<u>\$ 1,386,714</u>	<u>\$ 740,356</u>	

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.	34,294,572
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,535,740
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.	1,708,268
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,268,197)</u>
Net assets of governmental activities	<u>\$ 49,425,009</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, 2009

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 18,849,628	\$ 3,286,599	\$ 1,599,962	\$ 23,736,189
Sales taxes	4,886,475	-	-	4,886,475
Miscellaneous taxes	364,972			364,972
Other governmental support	21,778,011	-	-	21,778,011
Fees of office	4,625,420	2,005,958	-	6,631,378
Forfeitures	1,079,524	-	-	1,079,524
Interest	176,934	5,134	5,322	187,390
Other	2,078,437	100,971	185,507	2,364,915
Payments in lieu of taxes	30,964	-	-	30,964
Total revenues	<u>53,870,365</u>	<u>5,398,662</u>	<u>1,790,791</u>	<u>61,059,818</u>
EXPENDITURES				
Current:				
General government	15,911,327	-	172,804	16,084,131
Legal	6,098,929	-	-	6,098,929
Public works	670,367	4,224,809	-	4,895,176
Social services	22,695,106	-	851,182	23,546,288
Public safety	10,997,384	-	-	10,997,384
Debt service:				
Principal	-	-	400,000	400,000
Interest and other charges	-	-	58,884	58,884
Capital outlay	1,241,432	464,538	44,166	1,750,136
Total expenditures	<u>57,614,545</u>	<u>4,689,347</u>	<u>1,527,036</u>	<u>63,830,928</u>
NET CHANGE IN FUND BALANCES	(3,744,180)	709,315	263,755	(2,771,110)
FUND BALANCES, BEGINNING	<u>16,065,194</u>	<u>570,472</u>	<u>290,070</u>	<u>16,925,736</u>
FUND BALANCES, ENDING	<u>\$ 12,321,014</u>	<u>\$ 1,279,787</u>	<u>\$ 553,825</u>	<u>\$ 14,154,626</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, 2009

Net change in fund balances - total governmental funds: \$(2,771,110)

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. (454,703)

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. (7,631)

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. 400,000

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. (11,830)

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. (331,083)

Change in net assets of governmental activities \$(3,176,357)

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

ORANGE COUNTY, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2009

	<u>Internal Service</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>2,055,315</u>
Total current assets	<u>2,055,315</u>
 Total assets	 <u>2,055,315</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	<u>347,047</u>
Total current liabilities	<u>347,047</u>
 Total liabilities	 <u>347,047</u>
NET ASSETS	
Unrestricted	<u>1,708,268</u>
 Total net assets	 \$ <u>1,708,268</u>

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

ORANGE COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Internal Service
REVENUES	
Employer contributions	\$ 3,806,768
Employee contributions	<u>658,178</u>
Total operating revenues	<u>4,464,946</u>
 OPERATING EXPENSES	
Claims	2,751,861
Other charges	<u>2,044,168</u>
Total operating expenses	<u>4,796,029</u>
 OPERATING INCOME	 (331,083)
 CHANGE IN NET ASSETS	 (331,083)
 TOTAL NET ASSETS, BEGINNING	 <u>2,039,351</u>
 TOTAL NET ASSETS, ENDING	 <u>\$ 1,708,268</u>

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

ORANGE COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2009

	<u>Governmental Activities - Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,464,946
Cash paid to suppliers for goods and services	<u>(4,752,447)</u>
Net cash provided by operating activities	<u>(287,501)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(287,501)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>2,342,816</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 2,055,315</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$(331,083)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase (decrease) in liabilities:	
Accounts payable	<u>43,582</u>
Net cash provided by operations	<u>\$(287,501)</u>

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

ORANGE COUNTY, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Property taxes	\$ 18,670,355	\$ 18,670,355	\$ 18,849,628	\$ 179,273
Sales taxes	3,911,874	3,911,874	4,886,475	974,601
Miscellaneous taxes	282,749	282,749	364,972	82,223
Other governmental support	1,760,737	1,890,666	21,778,011	19,887,345
Payments in lieu of taxes	-	-	30,964	30,964
Fees of office	4,598,147	4,648,147	4,625,420	(22,727)
Interest	978,322	971,322	176,934	(794,388)
Other	187,367	185,567	2,078,437	1,892,870
Forfeiture	11,755	11,755	1,079,524	1,067,769
Total revenues	<u>30,401,306</u>	<u>30,572,435</u>	<u>53,870,365</u>	<u>23,297,930</u>
EXPENDITURES				
Current:				
General government	13,737,523	13,956,602	15,911,327	(1,954,725)
Legal	6,286,288	6,327,765	6,098,929	228,836
Public works	627,504	626,179	670,367	(44,188)
Social services	2,854,622	2,570,102	22,695,106	(20,125,004)
Public safety	11,593,858	11,730,732	10,997,384	733,348
Capital outlay	867,835	900,391	1,241,432	(341,041)
Total expenditures	<u>35,967,630</u>	<u>36,111,771</u>	<u>57,614,545</u>	<u>(21,502,774)</u>
Excess revenues over expenditures	<u>(5,566,324)</u>	<u>(5,539,336)</u>	<u>(3,744,180)</u>	<u>1,795,156</u>
NET CHANGE IN FUND BALANCES	(5,566,324)	(5,539,336)	(3,744,180)	1,795,156
FUND BALANCES, BEGINNING	<u>15,102,870</u>	<u>15,102,870</u>	<u>16,065,194</u>	<u>(962,324)</u>
FUND BALANCES, ENDING	<u>\$ 9,536,546</u>	<u>\$ 9,563,534</u>	<u>\$ 12,321,014</u>	<u>\$ 832,832</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 BALANCE - BUDGET AND ACTUAL**

ROAD AND BRIDGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 3,237,215	\$ 3,237,215	\$ 3,286,599	\$ 49,384
Fees and fines	1,999,059	1,999,059	2,005,958	6,899
Interest	20,771	20,771	5,134	(15,637)
Other revenue	181,648	181,648	100,971	(80,677)
Total revenues	5,438,693	5,438,693	5,398,662	(40,031)
EXPENDITURES				
Current:				
Public works	4,564,377	4,564,377	4,224,809	339,568
Capital outlay	498,009	498,009	464,538	33,471
Total expenditures	5,062,386	5,062,386	4,689,347	373,039
NET CHANGE IN FUND BALANCE	376,307	376,307	709,315	333,008
FUND BALANCES, BEGINNING	570,472	570,472	570,472	-
FUND BALANCES, ENDING	\$ 946,779	\$ 946,779	\$ 1,279,787	\$ 333,008

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, 2009

	<u>Agency Funds</u>
ASSETS	
Cash	\$ <u>2,241,439</u>
Total assets	\$ <u>2,241,439</u>
LIABILITIES	
Due to others	\$ <u>2,241,439</u>
Total liabilities	\$ <u>2,241,439</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, 2009

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, 2009.

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 \$0.51700 per \$100 of assessed valuation that were prorated between operations, road and bridge, mosquito control, and debt service in the amounts of \$0.40978, \$0.07185, \$0.02472 and \$0.01065, respectively. The resulting adjusted tax levies were approximately \$18.5, \$3.2, \$1.1 and \$.5 million for operations, road and bridge, mosquito control, and debt service, respectively, based on a total adjusted taxable valuation of approximately \$4.18 billion for the 2008 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.

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 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 \$(3,268,197) difference are as follows:

Certificates of obligation	\$(1,145,000)
Accrued interest payable	(6,083)
Compensated absences	<u>(2,117,114)</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$(3,268,197)</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	\$ 1,787,501
Depreciation expense	(2,116,205)
Deletion of capital assets	<u>(125,999)</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>\$(454,703)</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 \$(7,631) difference are as follows:

Property taxes	\$(89,158)
Miscellaneous revenue	<u>81,527</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>\$(7,631)</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 \$(11,830) difference are as follows:

Compensated absences	\$(13,068)
Interest expense	<u>1,238</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>\$(11,830)</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, 2009, the County had a bank balance of \$13,160,174. Of this amount, \$12,863,332 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 & 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, 2009, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
TexPool	\$ <u>9,483,085</u>	44
Total fair value	\$ <u>9,483,085</u>	

(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	\$ 670,966	\$ -	\$ -	\$ 670,966
Property taxes	1,730,259	48,497	82,705	1,861,461
Adjudicated fines	2,524,377	-	-	2,524,377
Other	51,174	-	-	51,174
Due from other governments	<u>3,094,642</u>	<u>10,301</u>	<u>-</u>	<u>3,104,943</u>
Gross receivables	8,071,418	58,798	82,705	8,212,921
Less: allowance for uncollectibles	<u>1,767,064</u>	<u>-</u>	<u>-</u>	<u>1,767,064</u>
Net total receivables	<u>\$ 6,304,354</u>	<u>\$ 58,798</u>	<u>\$ 82,705</u>	<u>\$ 6,445,857</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	\$ 1,664,446	\$ -	\$ 1,664,446
Adjudicated fines	757,313	-	757,313
Grant revenues	<u>-</u>	<u>752,748</u>	<u>752,748</u>
Total general fund	<u>2,421,759</u>	<u>752,748</u>	<u>3,174,507</u>
Road and bridge fund:			
Delinquent property taxes receivable	<u>36,958</u>	<u>-</u>	<u>36,958</u>
Total general fund	<u>36,958</u>	<u>-</u>	<u>36,958</u>
Nonmajor governmental funds:			
Delinquent property taxes receivable	<u>77,023</u>	<u>-</u>	<u>77,023</u>
Governmental funds	<u>\$ 2,535,740</u>	<u>\$ 752,748</u>	<u>\$ 3,288,488</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Government activities:					
Capital assets, not being depreciated:					
Land	\$ 1,438,146	\$ 360,534	\$ -	\$ -	\$ 1,798,680
Total capital assets not being depreciated	<u>1,438,146</u>	<u>360,534</u>	<u>-</u>	<u>-</u>	<u>1,798,680</u>
Capital assets, being depreciated:					
Buildings and improvements	17,732,126	158,310	-	575,937	18,466,373
Furniture, fixtures and equipment	10,980,738	1,268,657	530,619	-	11,718,776
Infrastructure	<u>27,286,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,286,354</u>
Total capital assets being depreciated	<u>55,999,218</u>	<u>1,426,967</u>	<u>530,619</u>	<u>575,937</u>	<u>57,471,503</u>
Less accumulated depreciation:					
Buildings	6,636,278	464,030	-	-	7,100,308
Furniture, fixtures and equipment	6,913,272	881,741	404,620	-	7,390,393
Infrastructure	<u>9,714,476</u>	<u>770,434</u>	<u>-</u>	<u>-</u>	<u>10,484,910</u>
Total accumulated depreciation	<u>23,264,026</u>	<u>2,116,205</u>	<u>404,620</u>	<u>-</u>	<u>24,975,611</u>
Total capital assets, being depreciated, net	<u>32,735,192</u>	<u>(689,238)</u>	<u>125,999</u>	<u>575,937</u>	<u>32,495,892</u>
Governmental activities capital assets, net	<u>\$ 34,173,338</u>	<u>\$ (328,704)</u>	<u>\$ 125,999</u>	<u>\$ 575,937</u>	<u>\$ 34,294,572</u>

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

Governmental activities:	
General administration	\$ 160,851
Public works	1,137,820
Legal	257,238
Social services	48,485
Public safety	<u>511,811</u>
Total depreciation expense - governmental activities	<u>\$ 2,116,205</u>

(continued)

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

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2009, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Mosquito Fund	General Fund	\$ 162,842
Road and bridge	Nonmajor governmental	64,400
Road and bridge	General fund	<u>1,207,962</u>
Total		<u>\$ 1,435,204</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 10.70% for the months of the accounting year in 2009, and 10.60% for the months of the accounting year in 2008.

The contribution rate payable by the employee members for calendar year 2009 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, 2009, the annual pension cost for the TCDRS plan for its employees was \$1,952,694 and the actual contributions were \$1,952,694.

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, 2007 and December 31, 2008, the basis for determining the contribution rates for calendar years 2008 and 2009. The December 31, 2008, actuarial valuation is the most recent valuation.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period in years	15	15	15
Asset valuation method	SAF: 10-yr smoothed value ESF: fund value	SAF: 10-yr smoothed value ESF: fund value	SAF: 10-yr smoothed value ESF: fund value
Actuarial Assumptions:			
Investment return	8.00%	8.00%	8.00%
Projected salary increases	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
09/30/07	\$ 1,662,225	100%	\$ -
09/30/08	1,866,736	100%	-
09/30/09	1,952,694	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)
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%
2008	47,032,132	57,653,672	10,621,540	81.58%	19,875,609	53.44%

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	\$	200,537
Adult probation		247,054
Voter registration		5,753
South East Texas Auto Theft Task Force		62,209
Payroll		4,888
Sewer/Septic Grant		19,840
Law Library		125,054
District Attorney Drug Forfeiture		188,792
Hot Check Collection		5,496
DWI Audio		55,148
Contributions		8,678
District Clerk Records Management		92,666
Child Support Title IV-E		142,901
Federal Drug Seizure		244,451
District Attorney Federal Drug Seizure		36,739
TCDP ORCA Grant		40,572
Law Enforcement Training		30,587
Bail Bonds		61,162
County State Drug Seizure		24,989
Child Welfare Jury		14,340
County Clerk Records Management		196,525
Community Corrections		332,251
Constable Precinct #1 - Drug Seizure		47,366
Indigent Defense		251,837
Courthouse Security		296,394
Records Management		95,113
Treasury Forfeiture		58,775
Family Protection Fees		48,510
Justice of the Peace Technology		85,730
Probate Education		15,655
Stark Foundation Grant		33,161
Gambling and Child Porn Forfeiture		<u>136,595</u>
Total Restricted Assets	\$	<u>3,209,768</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, 2009:

	Date of Issue	Amount of Debt	Interest Rate	Balance 09/30/08	Additions	Deletions	Balance 09/30/09	Due Within One Year
Certificate of obligation	01/15/94	\$ 6,000,000	5.3%-4.25%	\$ 1,545,000	\$ -	\$ 400,000	\$ 1,145,000	\$ 400,000
Compensated absences				<u>2,104,046</u>	<u>1,533,002</u>	<u>1,519,934</u>	<u>2,117,114</u>	<u>554,729</u>
Total				<u>\$ 3,649,046</u>	<u>\$ 1,533,002</u>	<u>\$ 1,919,934</u>	<u>\$ 3,262,114</u>	<u>\$ 954,729</u>

	<u>Certificates of Obligation</u>
Balance, October 1, 2008	\$ 1,545,000
Debt retired this year	<u>400,000</u>
Balance, September 30, 2009	<u>\$ 1,145,000</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, 2009, are as follows:

<u>Year Ending September 30,</u>	<u>Certificates of Obligation</u>	<u>Interest</u>	<u>Total</u>
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>\$ 1,145,000</u>	<u>\$ 66,407</u>	<u>\$ 1,211,407</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, 2009, 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.

M. Accounting Pronouncements

The County has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, and No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The County is therefore unable to disclose the impact that adopting GASB No. 43 and No. 45 will have on its financial position and the results of its operations when the statements are adopted.

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

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.

ORANGE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	<u>Mosquito Control</u>	<u>Economic Development Corporation</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 257,134	\$ -	\$ -	\$ 257,134
Investments	-	-	237,675	237,675
Taxes receivable, net	42,572	-	40,133	82,705
Due from other funds	<u>162,842</u>	<u>-</u>	<u>-</u>	<u>162,842</u>
 Total assets	 <u>\$ 462,548</u>	 <u>\$ -</u>	 <u>\$ 277,808</u>	 <u>\$ 740,356</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 44,700	\$ 408	\$ -	\$ 45,108
Due to other funds	-	12,704	51,696	64,400
Deferred revenue	<u>38,601</u>	<u>-</u>	<u>38,422</u>	<u>77,023</u>
Total liabilities	<u>83,301</u>	<u>13,112</u>	<u>90,118</u>	<u>186,531</u>
 Fund balances:				
Reserved for:				
Debt service	-	-	187,690	187,690
Unreserved, reported in:				
Special revenue funds	<u>379,247</u>	<u>(13,112)</u>	<u>-</u>	<u>366,135</u>
Total fund balances	<u>379,247</u>	<u>(13,112)</u>	<u>187,690</u>	<u>553,825</u>
 Total liabilities and fund balances	 <u>\$ 462,548</u>	 <u>\$ -</u>	 <u>\$ 277,808</u>	 <u>\$ 740,356</u>

ORANGE COUNTY, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>Mosquito Control</u>	<u>Economic Development Corporation</u>	<u>Debt Service</u>	<u>Total Other Governmental Funds</u>
REVENUES				
Property taxes	\$ 1,136,413	\$ -	\$ 463,549	\$ 1,599,962
Interest	3,275	-	2,047	5,322
Other	-	185,507	-	185,507
Total revenues	<u>1,139,688</u>	<u>185,507</u>	<u>465,596</u>	<u>1,790,791</u>
EXPENDITURES				
Current:				
General government	-	172,804	-	172,804
Social services	851,182	-	-	851,182
Capital outlay	44,166	-	-	44,166
Debt service:				
Principal	-	-	400,000	400,000
Interest and other charges	-	-	58,884	58,884
Total expenditures	<u>895,348</u>	<u>172,804</u>	<u>458,884</u>	<u>1,527,036</u>
NET CHANGE IN FUND BALANCES	244,340	12,703	6,712	263,755
FUND BALANCES, BEGINNING	<u>134,907</u>	<u>(25,815)</u>	<u>180,978</u>	<u>290,070</u>
FUND BALANCES, ENDING	<u>\$ 379,247</u>	<u>\$ (13,112)</u>	<u>\$ 187,690</u>	<u>\$ 553,825</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.

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.

ORANGE COUNTY, TEXAS

FIDUCIARY FUND TYPE

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

SEPTEMBER 30, 2009

	District Attorney	Justices of the Peace	County Clerk	District Clerk	Child Support	Probation Officer	Sheriff	Total
ASSETS								
Cash	\$ 15,518	\$ 28,166	\$ 694,869	\$ 1,275,869	\$ 201	\$ 76,938	\$ 149,878	\$ 2,241,439
Total assets	\$ 15,518	\$ 28,166	\$ 694,869	\$ 1,275,869	\$ 201	\$ 76,938	\$ 149,878	\$ 2,241,439
LIABILITIES								
Due to others	\$ 15,518	\$ 28,166	\$ 694,869	\$ 1,275,869	\$ 201	\$ 76,938	\$ 149,878	\$ 2,241,439
Total liabilities	\$ 15,518	\$ 28,166	\$ 694,869	\$ 1,275,869	\$ 201	\$ 76,938	\$ 149,878	\$ 2,241,439

SINGLE AUDIT



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, 2009, and have issued our report thereon dated June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

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, 2010.

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, L.L.P.

June 30, 2010



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, 2009. 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, 2009.

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, 2010

ORANGE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Federal Grantor Agency/ Pass-through Agency	CFDA Number	Pass-through Grantor's Number	Disbursements/ Expenditures
<u>U. S. Department of Housing and Urban Development</u>			
Passed through Texas Department of Rural Affairs:			
Community Development Block Grant	14.228	724589	\$ 936,392
Community Development Block Grant	14.228	725631	21,183
Community Development Block Grant	14.228	727097	<u>334,380</u>
Total Passed through Office of Rural Community Affairs			<u>1,291,955</u>
Total U. S. Department of Housing and Urban Development			<u>1,291,955</u>
<u>U. S. Department of Justice</u>			
Direct program			
IRS Equitable Sharing Program	16.000	74-6001826	<u>754,952</u>
Total Direct programs			<u>754,952</u>
Total U. S. Department of Justice			<u>754,952</u>
<u>U. S. Department of Agriculture</u>			
Passed through Texas Department of State Health Services:			
Women, Infants and Children	20.509	RPT-0802(20)	<u>165,305</u>
Total Passed through Texas Department of State Health Services			<u>165,305</u>
Total U. S. Department of Agriculture			<u>165,305</u>
<u>U. S. Elections Assistance Commission</u>			
Passed through Texas Secretary of State:			
General HAVA Compliance	90.401	78656	<u>1,200</u>
Total Passed through Texas Secretary of State			<u>1,200</u>
Total U. S. Elections Assistance Commission			<u>1,200</u>

(Continued)

ORANGE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

Federal Grantor Agency/ Pass-through Agency	CFDA Number	Grantor's Number	Disbursements/ Expenditures
<u>U. S. Department of Health and Human Services</u>			
Passed through Texas Department of State Health Services:			
OPHP/LPHS	93.991	2008-024496-001	44,091
Total Passed through Texas Department of State Health Services			44,091
Passed through Southeast Texas Regional Planning Commission:			
Social Services Block Grant	93.667	529-06-0433-00001	101,558
Total Passed through Southeast Regional Planning Commission			101,558
Passed through Southeast Texas Department of Families and Protective Services:			
Hazard Mitigation Grant - Hurricane Rita	93658		21,811
Total Passed through Southeast Texas Department of Families and Protective Services			21,811
Total U. S. Department of Health and Human Services			167,460
<u>U. S. Department of Homeland Security</u>			
Passed through Texas Department of Public Safety			
Division of Emergency Management:			
Public Assistance Grant	97.036	FEMA 1791 DR-TX	18,232,498
State Homeland Security (SHSP)	97.073	2007-GE-T7-0024	190,406
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	2007-GE-T7-0024	125,608
Citizens Corp	97.053	2007-GE-T7-0024	2,574
Emergency Management Performance Grant	97.042	07TX-EMPG-088	17,462
Total Passed through Texas Department of Public Safety Division of Emergency Management			18,568,548
Total U. S. Department of Homeland Security			18,568,548
TOTAL FEDERAL AWARDS			\$ 20,949,420

ORANGE COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2009

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, 2009

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	\$628,483
Low risk auditee statement	The County was classified as a low-risk auditee in the context of OMB Circular A-133
Major federal programs	Public Assistance Grant, #97.036

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, 2009

None

FORM SF-SAC (8-6-2008)

U.S. DEPT. OF COMM.- Econ. and Stat. Admin.- U.S. CENSUS BUREAU ACTING AS COLLECTING AGENT FOR OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates in 2008, 2009, or 2010

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

PART 1 GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)

1. Fiscal period ending date for this submission (Month Day Year: 09 / 30 / 2009)
2. Type of Circular A-133 audit (1 [X] Single audit, 2 [] Program-specific audit)
3. Audit period covered (1 [X] Annual, 2 [] Biennial, 3 [] Other - Months)

4. Auditee Identification Numbers
a. Primary Employer Identification Number (EIN) (74-6001826)
d. Data Universal Numbering System (DUNS) Number
b. Are multiple EINs covered in this report? 1 [] Yes 2 [X] No
e. Are multiple DUNS covered in this report? 1 [] Yes 2 [] No
c. If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4.
f. If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.

5. AUDITEE INFORMATION
a. Auditee name (ORANGE COUNTY, TEXAS)
b. Auditee address (123 S. 6TH STREET, ORANGE, TX 77630)
c. Auditee contact (Name: DEBBIE RAWLS, Title: COUNTY AUDITOR)
d. Auditee contact telephone ((409) 882-7020)
e. Auditee contact FAX ((409) 882-7029)
f. Auditee contact E-mail (DRAWLS@CO.ORANGE.TX.US)

6. PRIMARY AUDITOR INFORMATION (To be completed by auditor)
a. Primary auditor name (PATTILLO, BROWN & HILL, L.L.P.)
b. Primary auditor address (401 W. HWY 6, WACO, TX 76710)
c. Primary auditor contact (Name: CHRIS PRUITT, Title: PARTNER)
d. Primary auditor contact telephone ((254) 772-4901)
e. Primary auditor contact FAX ((254) 772-4920)
f. Primary auditor contact E-mail (CPRUITT@PBHCPA.COM)

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Auditee certification Date

NOT FOR SUBMISSION

Name of certifying official

NOT FOR SUBMISSION

Title of certifying official

NOT FOR SUBMISSION

7a. Add Secondary auditor information? (Optional) 1 [] Yes 2 [X] No

b. If "Yes," complete Part I, Item 8 on the continuation sheet on page 5.

Auditor certification Date

NOT FOR SUBMISSION