

ORANGE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2011**

ORANGE COUNTY, TEXAS

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County, Texas, as of and for the year ended September 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Orange County, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the proprietary fund, each major fund and the aggregate remaining fund information of Orange County, Texas, as of September 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and Road and Bridge Special Revenue Funds, and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. 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 also not a required part of the financial statements. The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

July 19, 2012

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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ORANGE COUNTY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the County of Orange's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the County's financial performance during the fiscal year that ended September 30, 2011. 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, 2011, by \$38,652,480 (net assets). Of this amount, (\$2,584,765) (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 \$4,505,366.
- As of the close of the current fiscal year, Orange County's governmental funds reported combined ending fund balances of \$7,013,947. Of this amount, (\$1,861,922) is unassigned fund balance available for use within the County's fund designation.
- As of September 30, 2011, unassigned fund balance for the General Fund was \$(1,841,577) or -4% 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 – 39 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 40 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 \$38,652,480 as of September 30, 2011.

A portion of the County's assets, \$32,361,376, 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	
	2011	2010
Current assets	\$ 19,092,822	\$ 22,596,557
Capital assets	32,631,376	34,297,853
Total assets	<u>51,724,198</u>	<u>56,894,410</u>
Current liabilities	8,539,843	7,482,077
Noncurrent liabilities	4,531,875	3,117,988
Total liabilities	<u>13,071,718</u>	<u>10,600,065</u>
Net assets:		
Invested in capital assets, net of related debt	32,361,376	33,577,853
Restricted	8,875,869	3,903,288
Unrestricted	<u>(2,584,765)</u>	<u>8,813,204</u>
Total net assets	<u>\$ 38,652,480</u>	<u>\$ 46,294,345</u>

An additional portion of the County's net assets \$8,875,869, represents resources that are subject to external restriction on how they may be used. The remaining balance, (\$2,584,765), 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 \$4,505,366 this year.

Analysis of the County's Operations – The following table provides a summary of the County's operations for the year ended September 30, 2011.

ORANGE COUNTY'S CHANGES IN NET ASSETS

	Governmental Activities	
	2011	2010
REVENUES		
Program revenues:		
Charges for services	\$ 6,864,324	\$ 7,023,850
Operating grants and contributions	5,814,809	7,699,872
General revenues:		
Property taxes	25,234,169	24,149,649
Other taxes	3,707,800	3,658,417
Investment earnings	62,419	128,028
Sale of capital assets	63,918	-
Other	1,101,105	1,689,944
Total revenues	42,848,544	44,349,760
EXPENSES		
General government	13,995,480	14,592,658
Legal	6,616,140	6,911,676
Public works	8,183,368	6,322,330
Social services	4,748,554	7,115,955
Public safety	13,790,923	12,241,268
Interest on long-term debt	19,446	36,498
Total expenses	47,353,910	47,220,385
CHANGE IN NET ASSETS	(4,505,366)	(2,870,625)
NET ASSETS, BEGINNING	46,294,345	49,425,009
PRIOR PERIOD ADJUSTMENT	(3,136,499)	(260,039)
NET ASSETS, ENDING	\$ 38,652,480	\$ 46,294,345

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, *unassigned 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 \$7,013,947 . Approximately -27% of this total amount constitutes unassigned fund balance. The remaining \$8,875,869 of the fund balance is restricted 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 \$6,808,263 for fiscal year 2011.

In the General Fund, the variance in actual revenue received compared to the budgeted amount was \$1,668,490. Other governmental support was \$1,770,326 more than expected. Forfeiture revenue was \$324,716 more than budget.

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 \$1,668,490.
- Actual revenues were less than actual expenditures by \$6,886,242 .
- Actual expenditures less than over the final budgeted amount by \$1,104,521 .

CAPITAL ASSETS

Orange County's investment in capital assets for its governmental activities as of September 30, 2011, amounts to \$32,631,376 (net of accumulated depreciation). This investment in capital assets included land, building, equipment and improvements (other than buildings, infrastructure and construction in progress). Major capital asset events occurring during the current fiscal year included the following:

- Capitalized \$24,000 in new buildings and building improvements;
- Capitalized \$324,659 in Road and Bridge equipment;
- Capitalized \$284,812 in Sheriff's Department equipment; and
- Capitalized \$176,179 in Maintenance Department equipment.

ORANGE COUNTY'S CAPITAL ASSETS
(net of depreciation)

	Governmental Activities	
	2011	2010
Land	\$ 1,798,680	\$ 1,798,680
Buildings and improvements	18,804,386	18,780,386
Machinery and equipment	12,875,426	13,057,912
Infrastructure	27,286,354	27,286,354
Construction in progress	2,787,047	-
Less: accumulated depreciation	<u>(30,920,517)</u>	<u>(26,625,479)</u>
Total	<u>\$ 32,631,376</u>	<u>\$ 34,297,853</u>

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

DEBT ADMINISTRATION

At the end of the current fiscal year, Orange County had total bonded debt outstanding of \$270,000. The full amount is backed by the full faith and credit of the County.

REQUEST FOR INFORMATION

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

**BASIC
FINANCIAL STATEMENTS**

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ORANGE COUNTY, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,876,192
Investments	9,429,650
Receivables (net of allowances for uncollectibles)	
Property taxes	2,379,713
Sales tax receivable	563,045
Adjudicated fines	1,280,078
Other receivable	50,244
Due from other governments	2,513,900
Capital assets (net of accumulated depreciation)	
Land	1,798,680
Construction in progress	2,787,047
Buildings and improvements	10,713,173
Machinery and equipment	2,071,900
Infrastructure	<u>15,260,576</u>
Total assets	<u>51,724,198</u>
LIABILITIES	
Accounts payable	3,485,261
Due to other governments	1,207,865
Due to beneficiaries	692,798
Unearned revenue	2,060,459
Accrued salaries and payroll liabilities	1,092,743
Accrued interest	717
Noncurrent liabilities:	
Due within one year	830,929
Due in more than one year	<u>3,700,946</u>
Total liabilities	<u>13,071,718</u>
NET ASSETS	
Invested in capital assets, net of related debt	32,361,376
Restricted	8,875,869
Unrestricted	<u>(2,584,765)</u>
Total net assets	<u>\$ 38,652,480</u>

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

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ORANGE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues		Primary Government Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental activities:				
General government	\$ 13,995,480	\$ 875,613	\$ 4,496,303	\$(8,623,564)
Legal	6,616,140	3,377,256	354,032	(2,884,852)
Public works	8,183,368	1,908,298	816,176	(5,458,894)
Social services	4,748,554	3,547	92,932	(4,652,075)
Public safety	13,790,923	699,610	55,366	(13,035,947)
Interest on long-term debt	<u>19,446</u>	<u>-</u>	<u>-</u>	<u>(19,446)</u>
Total governmental activities	<u>47,353,910</u>	<u>6,864,324</u>	<u>5,814,809</u>	<u>(34,674,777)</u>
General revenues:				
Taxes:				
Property taxes				24,757,453
Property taxes-debt service				476,716
Sales and use taxes				3,707,800
Investment earnings				62,419
Sale of capital assets				63,918
Miscellaneous				<u>1,101,105</u>
Total general revenues				<u>30,169,411</u>
Change in net assets				(4,505,366)
Net assets, beginning				<u>46,294,345</u>
Prior period adjustment				(3,136,499)
Restated net assets,				<u>43,157,846</u>
Net assets, ending				<u>\$ 38,652,480</u>

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

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ORANGE COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	<u>General</u>	<u>Road and Bridge</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 101,427	\$ 2,083,126	\$ 420,848	\$ 2,605,401
Investments	9,207,503	-	222,147	9,429,650
Sales tax receivable	563,045	-	-	563,045
Taxes receivable, net	2,139,648	125,676	114,389	2,379,713
Adjudicated fines receivable	1,280,078	-	-	1,280,078
Other receivables	50,244	-	-	50,244
Due from other funds	57,670	1,214,633	-	1,272,303
Receivable from other governments	2,513,900	-	-	2,513,900
Total assets	<u>15,913,515</u>	<u>3,423,435</u>	<u>757,384</u>	<u>20,094,334</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	2,733,768	433,393	40,757	3,207,918
Payable to other governments	1,207,865	-	-	1,207,865
Due to other funds	1,214,633	-	57,670	1,272,303
Due to beneficiaries	692,798	-	-	692,798
Deferred revenue	5,401,640	98,097	107,023	5,606,760
Other accrued expenses	1,092,743	-	-	1,092,743
Total liabilities	<u>12,343,447</u>	<u>531,490</u>	<u>205,450</u>	<u>13,080,387</u>
Fund balances:				
Restricted	5,411,645	2,891,945	572,279	8,875,869
Unassigned	(1,841,577)	-	(20,345)	(1,861,922)
Total fund balances	<u>3,570,068</u>	<u>2,891,945</u>	<u>551,934</u>	<u>7,013,947</u>
Total liabilities and fund balances	<u>\$ 15,913,515</u>	<u>\$ 3,423,435</u>	<u>\$ 757,384</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.	32,631,376
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	3,546,301
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.	(6,552)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(4,532,592)
Net assets of governmental activities	<u>\$ 38,652,480</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, 2011

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 17,700,339	\$ 5,945,056	\$ 1,588,774	\$ 25,234,169
Sales taxes	3,707,800	-	-	3,707,800
Miscellaneous taxes	207,085	-	-	207,085
Other governmental support	5,834,747	-	-	5,834,747
Fees of office	4,276,300	1,812,248	-	6,088,548
Forfeitures	337,390	-	-	337,390
Interest	55,325	4,775	2,319	62,419
Other	945,552	69,250	185,763	1,200,565
Payments in lieu of taxes	69,058	-	-	69,058
Total revenues	<u>33,133,596</u>	<u>7,831,329</u>	<u>1,776,856</u>	<u>42,741,781</u>
EXPENDITURES				
Current:				
General government	11,544,794	-	186,726	11,731,520
Legal	6,112,037	-	-	6,112,037
Public works	2,284,612	4,309,225	-	6,593,837
Social services	3,447,820	-	1,041,761	4,489,581
Public safety	12,533,693	-	-	12,533,693
Debt service:				
Principal	-	-	450,000	450,000
Interest and other charges	-	-	21,359	21,359
Capital outlay	4,096,882	331,884	25,717	4,454,483
Total expenditures	<u>40,019,838</u>	<u>4,641,109</u>	<u>1,725,563</u>	<u>46,386,510</u>
EXCESS REVENUES OVER EXPENDITURES	<u>(6,886,242)</u>	<u>3,190,220</u>	<u>51,293</u>	<u>(3,644,729)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	77,979	-	-	77,979
Total other financing sources (uses)	<u>77,979</u>	<u>-</u>	<u>-</u>	<u>77,979</u>
NET CHANGE IN FUND BALANCES	<u>(6,808,263)</u>	<u>3,190,220</u>	<u>51,293</u>	<u>(3,566,750)</u>
FUND BALANCES, BEGINNING	<u>10,378,331</u>	<u>(298,275)</u>	<u>500,641</u>	<u>10,580,697</u>
FUND BALANCES, ENDING	<u>\$ 3,570,068</u>	<u>\$ 2,891,945</u>	<u>\$ 551,934</u>	<u>\$ 7,013,947</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, 2011

Net change in fund balances - total governmental funds: \$(3,566,750)

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. 1,470,022

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. 42,845

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. 450,000

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. (1,861,974)

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. (1,039,509)

Change in net assets of governmental activities \$(4,505,366)

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

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ORANGE COUNTY, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2011

	<u>Internal Service</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ <u>270,791</u>
Total current assets	<u>270,791</u>
 Total assets	 <u>270,791</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	<u>277,343</u>
Total current liabilities	<u>277,343</u>
 Total liabilities	 <u>277,343</u>
NET ASSETS	
Unrestricted	(<u>6,552</u>)
 Total net assets	 \$(<u>6,552</u>)

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

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ORANGE COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Internal Service</u>
REVENUES	
Employer contributions	\$ 3,849,463
Employee contributions	<u>657,348</u>
Total operating revenues	<u>4,506,811</u>
 OPERATING EXPENSES	
Claims	156,707
Other charges	<u>5,389,613</u>
Total operating expenses	<u>5,546,320</u>
 OPERATING INCOME	 (1,039,509)
 CHANGE IN NET ASSETS	 (1,039,509)
 TOTAL NET ASSETS, BEGINNING	 <u>1,032,957</u>
 TOTAL NET ASSETS, ENDING	 <u><u>\$ (6,552)</u></u>

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

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ORANGE COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2011

	Governmental Activities - Internal Service Fund <hr/>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,506,811
Cash paid to suppliers for goods and services	(5,425,565)
Net cash used by operating activities	<u>(918,754)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (918,754)
 CASH AND CASH EQUIVALENTS, BEGINNING	 <u>1,189,545</u>
 CASH AND CASH EQUIVALENTS, ENDING	 <u>\$ 270,791</u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$(1,039,509)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase (decrease) in liabilities:	
Accounts payable	<u>120,755</u>
Net cash used by operations	<u>\$(918,754)</u>

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

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ORANGE COUNTY, TEXAS

GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 17,470,025	\$ 17,470,025	\$ 17,700,339	\$ 230,314
Sales taxes	4,350,000	4,350,000	3,707,800	(642,200)
Miscellaneous taxes	345,647	345,647	207,085	(138,562)
Other governmental support	4,064,421	4,064,421	5,834,747	1,770,326
Payments in lieu of taxes	-	-	69,058	69,058
Fees of office	4,419,811	4,419,811	4,276,300	(143,511)
Interest	185,083	185,083	55,325	(129,758)
Other	617,445	617,445	945,552	328,107
Forfeiture	12,674	12,674	337,390	324,716
Total revenues	<u>31,465,106</u>	<u>31,465,106</u>	<u>33,133,596</u>	<u>1,668,490</u>
EXPENDITURES				
Current:				
General government	14,444,108	14,444,108	11,544,794	2,899,314
Legal	6,582,451	6,582,451	6,112,037	470,414
Public works	644,546	644,546	2,284,612	(1,640,066)
Social services	2,613,047	2,613,047	3,447,820	(834,773)
Public safety	13,518,287	13,518,287	12,533,693	984,594
Capital outlay	3,321,920	3,321,920	4,096,882	(774,962)
Total expenditures	<u>41,124,359</u>	<u>41,124,359</u>	<u>40,019,838</u>	<u>1,104,521</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(9,659,253)</u>	<u>(9,659,253)</u>	<u>(6,886,242)</u>	<u>2,773,011</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>77,979</u>	<u>77,979</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>77,979</u>	<u>77,979</u>
NET CHANGE IN FUND BALANCES	<u>(9,659,253)</u>	<u>(9,659,253)</u>	<u>(6,808,263)</u>	<u>2,850,990</u>
FUND BALANCES, BEGINNING AS PREVIOUSLY STATED	<u>10,378,331</u>	<u>10,378,331</u>	<u>10,378,331</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 719,078</u>	<u>\$ 719,078</u>	<u>\$ 3,570,068</u>	<u>\$ 2,850,990</u>

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

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ORANGE COUNTY, TEXAS

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

ROAD AND BRIDGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 5,969,451	\$ 5,969,451	\$ 5,945,056	\$(24,395)
Fees and fines	1,779,836	1,779,836	1,812,248	32,412
Interest	334	334	4,775	4,441
Other revenue	<u>100,786</u>	<u>100,786</u>	<u>69,250</u>	<u>(31,536)</u>
Total revenues	<u>7,850,407</u>	<u>7,850,407</u>	<u>7,831,329</u>	<u>(19,078)</u>
EXPENDITURES				
Current:				
Public works	4,683,106	4,683,106	4,309,225	373,881
Capital outlay	<u>363,466</u>	<u>363,466</u>	<u>331,884</u>	<u>31,582</u>
Total expenditures	<u>5,046,572</u>	<u>5,046,572</u>	<u>4,641,109</u>	<u>405,463</u>
NET CHANGE IN FUND BALANCE	2,803,835	2,803,835	3,190,220	386,385
FUND BALANCES, BEGINNING	<u>(298,275)</u>	<u>(298,275)</u>	<u>(298,275)</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,505,560</u>	<u>\$ 2,505,560</u>	<u>\$ 2,891,945</u>	<u>\$ 386,385</u>

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

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ORANGE COUNTY, TEXAS
FIDUCIARY FUND TYPE
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
SEPTEMBER 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash	\$ <u>3,282,917</u>
Total assets	\$ <u>3,282,917</u>
LIABILITIES	
Due to others	\$ <u>3,282,917</u>
Total liabilities	\$ <u>3,282,917</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, 2011

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, 2011, 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 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 \$0.53559 per \$100 of assessed valuation that were prorated between operations, road and bridge, mosquito control, and debt service in the amounts of \$0.37306, \$0.12827, \$0.02359, and \$0.01067, respectively. The resulting adjusted tax levies were approximately \$17.5, \$6.0, \$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 \$4.68 billion for the 2010 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 Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

(continued)

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

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

Fund Balance Classification (Continued)

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by court resolution of the Commissioners' Court, the County's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Commissioners' Court removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners' Court.

Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers unrestricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of unassigned funds, then assigned funds, and finally committed.

The restrictions placed on fund balance for the major governmental funds and all other governmental funds as of September 30, 2011, are as follows:

(continued)

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

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

Restricted Assets

Foster Care	\$	197,382
Adult probation		182,113
Voter registration		6,714
South East Texas Auto Theft Task Force		62,209
Payroll		4,888
Law Library		174,756
District Attorney Drug Forfeiture		252,837
DWI Audio		61,032
Contributions		10,661
District Clerk Records Management		201,355
Child Support Title IV-E		151,774
District Attorney Federal Drug Seizure		36,804
Constable #2 State Forfeiture		7,249
TCDP ORCA Grant		52,717
Law Enforcement Training		17,980
Mobile Volunteer Grant Program		12,667
Tax A-C VIT Interest		30,265
Bail Bonds		64,866
County State Drug Seizure		10,796
Child Welfare Jury		18,156
Stark Foundation Grant		9,964
Drug Forfeiture: Precinct #2		15,263
County Clerk Records Management		168,609
Community Corrections		356,318
Constable Precinct #1 - Drug Seizure		37,982
Records Management		110,513
Indigent Defense		301,436
Courthouse Security		235,619
Probate Education		17,217
Gambling and Child Porn Forfeiture		136,910
Treasury Forfeiture		4,758
Veterans Donations		1,032
Justice of the Peace Technology		88,358
Family Protection Fees		65,820
Hotel/Motel Tax		598,269
Constable #2 Treasury Forfeiture		29,750
Constable #2 Treasury Forfeiture		2,674
TDRA		<u>1,673,932</u>
Total Restricted Assets	\$	<u>5,411,645</u>

(continued)

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

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

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 \$2,514,434 difference are as follows:

Certificates of obligation	\$ 270,000
Accrued interest payable	717
Compensated absences	<u>2,243,717</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ <u>2,514,434</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 \$1,470,022 difference are as follows:

(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)

Capital outlay	\$ 4,017,405
Depreciation expense	(2,533,322)
Deletion of capital assets	<u>(14,061)</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>\$ 1,470,022</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 \$42,845 difference are as follows:

Property taxes	\$ 241,559
Miscellaneous revenue	<u>(198,714)</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>\$ 42,845</u>

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 \$(1,861,974) difference are as follows:

Compensated absences	\$ 154,271
Interest expense	1,913
OPEB liability	<u>(2,018,158)</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>\$(1,861,974)</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.

(continued)

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget Data (Continued)

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.

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.

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, 2011, the County had a bank balance of \$13,862,426. Of this amount, \$13,083,297 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.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

The County's investments at September 30, 2011, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
TexPool	\$ <u>2,368,651</u>	48
 Total fair value	 \$ <u>2,368,651</u>	

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	\$ 563,045	\$ -	\$ -	\$ 563,045
Property taxes	2,139,648	125,676	114,389	2,379,713
Adjudicated fines	4,266,927	-	-	4,266,927
Other	50,244	-	-	50,244
Due from other governments	<u>2,513,900</u>	<u>-</u>	<u>-</u>	<u>2,513,900</u>
Gross receivables	9,533,764	125,676	114,389	9,773,829
Less: allowance for uncollectibles	<u>2,986,849</u>	<u>-</u>	<u>-</u>	<u>2,986,849</u>
 Net total receivables	 \$ <u>6,546,915</u>	 \$ <u>125,676</u>	 \$ <u>114,389</u>	 \$ <u>6,786,980</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:

(continued)

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

B. Receivables (Continued)

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General fund:			
Delinquent property taxes receivable	\$ 2,061,103	\$ -	\$ 2,061,103
Adjudicated fines	1,280,078	-	1,280,078
Grant revenues	<u>-</u>	<u>2,060,459</u>	<u>2,060,459</u>
Total general fund	<u>3,341,181</u>	<u>2,060,459</u>	<u>5,401,640</u>
Road and bridge fund:			
Delinquent property taxes receivable	<u>98,097</u>	<u>-</u>	<u>98,097</u>
Total road and bridge fund	<u>98,097</u>	<u>-</u>	<u>98,097</u>
Nonmajor governmental funds:			
Delinquent property taxes receivable	<u>107,023</u>	<u>-</u>	<u>107,023</u>
Governmental funds	<u>\$ 3,546,301</u>	<u>\$ 2,060,459</u>	<u>\$ 5,606,760</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 1,798,680	\$ -	\$ -	\$ 1,798,680
Construction in progress	<u>-</u>	<u>2,787,047</u>	<u>-</u>	<u>2,787,047</u>
Total capital assets not being depreciated	<u>1,798,680</u>	<u>2,787,047</u>	<u>-</u>	<u>4,585,727</u>
Capital assets, being depreciated:				
Buildings and improvements	18,780,386	24,000	-	18,804,386
Furniture, fixtures and equipment	13,057,912	1,206,358	1,388,844	15,653,114
Infrastructure	<u>27,286,354</u>	<u>-</u>	<u>-</u>	<u>27,286,354</u>
Total capital assets being depreciated	<u>59,124,652</u>	<u>1,230,358</u>	<u>1,388,844</u>	<u>61,743,854</u>
Less accumulated depreciation:				
Buildings	7,486,271	484,845	-	7,971,116
Furniture, fixtures and equipment	7,883,864	1,278,043	(1,374,783)	7,787,124
Infrastructure	<u>11,255,344</u>	<u>770,434</u>	<u>-</u>	<u>12,025,778</u>
Total accumulated depreciation	<u>26,625,479</u>	<u>2,533,322</u>	<u>(1,374,783)</u>	<u>27,784,018</u>
Total capital assets, being depreciated, net	<u>32,499,173</u>	<u>(1,302,964)</u>	<u>2,763,627</u>	<u>33,959,836</u>
Governmental activities capital assets, net	<u>\$ 34,297,853</u>	<u>\$ 1,484,083</u>	<u>\$ 2,763,627</u>	<u>\$ 38,545,563</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

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

Governmental activities:		
General administration	\$	259,976
Public works		1,293,101
Legal		229,333
Social services		57,141
Public safety		<u>693,771</u>
 Total depreciation expense - governmental activities	\$	<u><u>2,533,322</u></u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2011, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 57,670
Road and bridge	General	<u>1,214,633</u>
Total		<u><u>\$ 1,272,303</u></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 TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 618 nontraditional defined benefit pension plans. TCERS, in the aggregate, issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCERS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

E. Pension Plan Obligations (Continued)

Plan Description (Continued)

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.

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 12.01% for the months of the accounting year in 2011, and 11.36% for the months of the accounting year in 2010.

The contribution rate payable by the employee members for calendar year 2011 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, 2011, the annual pension cost for the TCDRS plan for its employees was \$2,346,982 and the actual contributions were \$2,346,982.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

G. Funding Pension Cost (Continued)

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, 2009 and December 31, 2010, the basis for determining the contribution rates for calendar years 2010 and 2011. The December 31, 2010, actuarial valuation is the most recent valuation.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10
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	20	20	20
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	5.30%	5.40%	5.40%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

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
<hr/>	<hr/>	<hr/>	<hr/>
09/30/09	\$ 1,952,694	100%	\$ -
09/30/10	2,159,682	100%	-
09/30/11	2,346,982	100%	-

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

G. Funding Pension Cost (Continued)

**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)
2008	\$ 47,032,132	\$ 57,653,672	\$ 10,621,540	81.58%	\$ 19,875,609	53.44%
2009	52,996,079	63,647,551	10,651,472	83.26%	18,738,626	56.84%
2010	57,584,677	69,495,789	11,911,112	82.86%	19,493,048	61.10%

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, 157 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.

	Date of Issue	Amount of Debt	Interest Rate	Balance 09/30/10	Additions	Deletions	Balance 09/30/11	Due Within One Year
Certificate of obligation	01/15/94	\$ 6,000,000	5.3%-4.25%	\$ 720,000	\$ -	\$ 450,000	\$ 270,000	\$ 270,000
Compensated absences				2,397,988	1,577,906	1,732,177	2,243,717	560,929
OPEB liability				-	2,018,158	-	2,018,158	-
Total				\$ 3,117,988	\$ 3,596,064	\$ 2,182,177	\$ 4,531,875	\$ 830,929

The following is a summary of general long-term debt activity of Orange County, Texas for the year ended September 30, 2011:

	Certificates of Obligation
Balance, October 1, 2010	\$ 720,000
Debt retired this year	<u>450,000</u>
Balance, September 30, 2011	<u>\$ 270,000</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

J. Long-term Debt

(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, 2011, are as follows:

<u>Year Ending September 30,</u>	<u>Certificates of Obligation</u>	<u>Interest</u>	<u>Total</u>
2012	\$ <u>270,000</u>	\$ <u>5,738</u>	\$ <u>275,738</u>
Totals	\$ <u>270,000</u>	\$ <u>5,738</u>	\$ <u>275,738</u>

K. Other Postemployment Benefits

Annual OPEB Cost and Net OPEB Obligation

The County's single-employer annual other postemployment benefit (OPEB) cost (expense) plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The County's annual OPEB cost for the current year and the related information is listed below:

Annual Required Contribution (ARC)	\$ 2,834,736
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost	<u>2,834,736</u>
Contributions Made	<u>(816,578)</u>
Increase (decrease) in net pension obligation	2,018,158
Net pension obligation/(asset), beginning	<u>-</u>
Net pension obligation (asset), ending	<u>\$ 2,018,158</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

K. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County does not issue separate financial statements for the plan and the County has not established a trust to fund the plan.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.5% discount rate, and level percent of pay amortization) is shown in the char below:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net OPEB Obligation</u>
09/30/11	\$ 2,018,158	\$ 816,578	40.5%	\$ 2,018,158

Funding Status and Funding Progress

As of December 31, 2011, the actuarial accrued liability for benefits was \$26,095,753, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$15,993,668 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 163.16%.

The projection of future payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

In the December 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of investment expenses) and an annual health care costs trend rate of 5 percent. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at September 30, 2012, was 30 years. Inflation rates were assumed to be 3%.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

L. 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, 2011, 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.

M. 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.

N. Prior Period Adjustment

During the current year, the County determined that accumulated depreciation associated with buildings and improvements and machinery and equipment were not reported properly in the prior year financial statements. Therefore, beginning equities were restated by decreasing beginning net assets by \$3,136,499 in the government-wide financial statements.

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

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

Mosquito Control

Economic Development Corporation

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

ORANGE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>Mosquito Control</u>	<u>Economic Development Corporation</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 420,848	\$ -	\$ -	\$ 420,848
Investments	-	-	222,147	222,147
Taxes receivable, net	<u>63,870</u>	<u>-</u>	<u>50,519</u>	<u>114,389</u>
Total assets	<u>\$ 484,718</u>	<u>\$ -</u>	<u>\$ 272,666</u>	<u>\$ 757,384</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 40,757	\$ -	\$ -	\$ 40,757
Due to other funds	-	20,345	37,325	57,670
Deferred revenue	<u>58,798</u>	<u>-</u>	<u>48,225</u>	<u>107,023</u>
Total liabilities	<u>99,555</u>	<u>20,345</u>	<u>85,550</u>	<u>205,450</u>
Fund balances:				
Restricted	385,163	-	187,116	572,279
Unassigned	<u>-</u>	<u>(20,345)</u>	<u>-</u>	<u>(20,345)</u>
Total fund balances	<u>385,163</u>	<u>(20,345)</u>	<u>187,116</u>	<u>551,934</u>
Total liabilities and fund balances	<u>\$ 484,718</u>	<u>\$ -</u>	<u>\$ 272,666</u>	<u>\$ 757,384</u>

ORANGE COUNTY, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Mosquito Control</u>	<u>Economic Development Corporation</u>	<u>Debt Service</u>	<u>Total Other Governmental Funds</u>
REVENUES				
Property taxes	\$ 1,112,058	\$ -	\$ 476,716	\$ 1,588,774
Interest	1,966	-	353	2,319
Other	<u>-</u>	<u>185,763</u>	<u>-</u>	<u>185,763</u>
Total revenues	<u>1,114,024</u>	<u>185,763</u>	<u>477,069</u>	<u>1,776,856</u>
EXPENDITURES				
Current:				
General government	-	186,726	-	186,726
Social services	1,041,761	-	-	1,041,761
Capital outlay	25,717	-	-	25,717
Debt service:				
Principal	-	-	450,000	450,000
Interest and other charges	<u>-</u>	<u>-</u>	<u>21,359</u>	<u>21,359</u>
Total expenditures	<u>1,067,478</u>	<u>186,726</u>	<u>471,359</u>	<u>1,725,563</u>
NET CHANGE IN FUND BALANCES	46,546	(963)	5,710	51,293
FUND BALANCES, BEGINNING	<u>338,617</u>	<u>(19,382)</u>	<u>181,406</u>	<u>500,641</u>
FUND BALANCES, ENDING	<u>\$ 385,163</u>	<u>\$(20,345)</u>	<u>\$ 187,116</u>	<u>\$ 551,934</u>

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FIDUCIARY FUNDS

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

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

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

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

Tax Assessor – This fund is used to account for monies collected for various taxes by the County Tax Assessor Collector.

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.

Constables – This fund is used to account for monies collected by the County Constables.

ORANGE COUNTY, TEXAS

FIDUCIARY FUND TYPE

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

SEPTEMBER 30, 2011

	<u>District Attorney</u>	<u>Justices of the Peace</u>	<u>County Clerk</u>	<u>District Clerk</u>	<u>Tax Assessor</u>	<u>Child Support</u>	<u>Orange Co. Juvenile Probation</u>	<u>Orange Co. Adult Probation</u>	<u>Sheriff</u>	<u>Constables</u>	<u>Total</u>
ASSETS											
Cash	\$ <u>7,331</u>	\$ <u>18,666</u>	\$ <u>2,546,818</u>	\$ <u>447,005</u>	\$ <u>5,697</u>	\$ <u>170</u>	\$ <u>33,692</u>	\$ <u>42,175</u>	\$ <u>174,109</u>	\$ <u>7,254</u>	\$ <u>3,282,917</u>
Total assets	\$ <u>7,331</u>	\$ <u>18,666</u>	\$ <u>2,546,818</u>	\$ <u>447,005</u>	\$ <u>5,697</u>	\$ <u>170</u>	\$ <u>33,692</u>	\$ <u>42,175</u>	\$ <u>174,109</u>	\$ <u>7,254</u>	\$ <u>3,282,917</u>
LIABILITIES											
Due to others	\$ <u>7,331</u>	\$ <u>18,666</u>	\$ <u>2,546,818</u>	\$ <u>447,005</u>	\$ <u>5,697</u>	\$ <u>170</u>	\$ <u>33,692</u>	\$ <u>42,175</u>	\$ <u>174,109</u>	\$ <u>7,254</u>	\$ <u>3,282,917</u>
Total liabilities	\$ <u>7,331</u>	\$ <u>18,666</u>	\$ <u>2,546,818</u>	\$ <u>447,005</u>	\$ <u>5,697</u>	\$ <u>170</u>	\$ <u>33,692</u>	\$ <u>42,175</u>	\$ <u>174,109</u>	\$ <u>7,254</u>	\$ <u>3,282,917</u>

SINGLE AUDIT

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**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, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 19, 2012. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Commissioners' Court, others within the entity, 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.

July 19, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON 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 Orange County, Texas', (the "County"), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2011. The County's major federal programs are identified in the summary of auditor's 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 programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that 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 of the County's compliance with those requirements.

As described in Item 2011-1 in the accompanying Schedule of Findings and Questioned Costs, Orange County did not comply with requirements regarding the timely submission of necessary reports due to the Office of Management and Budget (OMB) that are applicable to all of its major programs. Compliance with such requirements is necessary, in our opinion, for Orange County to comply with the requirements applicable to all of their programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Orange County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Item 2011-1 to be a material weakness.

Orange County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Orange County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Commissioners' Court, others within the entity, 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.

July 19, 2012

ORANGE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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	DRS010214	\$ 3,103,795
Community Development Block Grant	14.228	729591	<u>126,141</u>
Total Passed through Texas Department of Rural Affairs			<u>3,229,936</u>
Total U. S. Department of Housing and Urban Development			<u>3,229,936</u>
<u>U. S. Department of Justice</u>			
Direct program			
IRS Equitable Sharing Program	16.000	TX1810000	321,481
Public Safety Partnership and Community Policing Grants	16.710	2009CKWX0757	<u>17,553</u>
Total Direct programs			<u>339,034</u>
Passed through Office of the Governor, Criminal Justice Division			
Edward Byrne Memorial Justice Assistance	16.738	2010-DJ-BX-0665	<u>4,022</u>
Total Passed through Office of the Governor, Criminal Justice Division			<u>4,022</u>
Total U. S. Department of Justice			<u>343,056</u>
<u>U. S. Department of Transportation</u>			
Passed through Southeast Texas Regional Planning Commission:			
Transportation Services - Section 5311	20.509	RPT-1004(20)33	175,124
Transportation Services - Section 5311	20.509	RPT-1102(20)34	<u>15,303</u>
Total Passed through Southeast Texas Regional Planning Commission			<u>190,427</u>
Total U. S. Department of Transportation			<u>190,427</u>

(continued)

ORANGE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor Agency/ Pass-through Agency	CFDA Number	Grantor's Number	Disbursements/ Expenditures
<u>U. S. Elections Assistance Commission</u>			
Passed through Texas Secretary of State:			
General HAVA Compliance	90.401	78656	\$ <u>66,122</u>
Total Passed through Texas Secretary of State			<u>66,122</u>
Total U. S. Elections Assistance Commission			<u>66,122</u>
<u>U. S. Department of Health and Human Services</u>			
Passed through Texas Department of State Health Services:			
RLSS/LPHS	93.991	2011-035654	<u>10,106</u>
Total Passed through Texas Department of State Health Services			<u>10,106</u>
Total U. S. Department of Health and Human Services			<u>10,106</u>
<u>U. S. Department of Homeland Security</u>			
Passed through Texas Department of Public Safety			
Division of Emergency Management:			
Hazard Mitigation	97.039	DR 1791-010	374,793
Hazard Mitigation	97.039	DR-1791-048	302,176
Emergency Management Performance Grant	97.042	11TX-EMPG-0410	20,081
State Homeland Security (SHSP)	97.073	2008-GE-T8-0034	12,298
State Homeland Security (SHSP)	97.073	2009-SS-T9-0064	<u>36,443</u>
Total Passed through Texas Department of Public Safety Division of Emergency Management			<u>745,791</u>
Passed through Jefferson County:			
Port Security Grant Program	97.056	2010-PU-T0-K040	<u>3,871</u>
Total Passed through Jefferson County			<u>3,871</u>
Total U. S. Department of Homeland Security			<u>749,662</u>
Total Expenditures of Federal Awards			<u>\$ 4,589,309</u>

ORANGE COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2011

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, 2011

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	None

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	2011-1
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major programs	Qualified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	2011-1
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
#14.228	Community Development Block Grant
#16.000	IRS Equitable Sharing Program
#97.039	Hazard Mitigation Grant

Dollar threshold used to distinguish between type A and type B programs	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

(continued)

ORANGE COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
SEPTEMBER 30, 2011

Findings and Questioned Costs for Federal Awards

<u>Item 2011-1:</u>	All federal awards
<u>Condition:</u>	The County did not perform its required duties in submitting the Data Collection Form to the Office of Management and Budget by the June 30, 2012 deadline.
<u>Criteria:</u>	Per OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, an entity receiving more than \$500,000 of federal funding shall submit to the Office of Management and Budget a Data Collection Form within nine months of the end of the recipient's fiscal year.
<u>Cause:</u>	The County's audited financial statements were not completed before the June 30 th deadline, therefore, no submission could be made.
<u>Effect:</u>	The County did not adhere to the compliance requirement mentioned above.
<u>Recommendation:</u>	We recommend the County ensure that all schedules and information needed to complete the County's annual audit be completed well before the June 30 th deadline.
<u>Management's Response:</u>	The County incurred delays in preparation for the audit due to unforeseen complications pertaining to the implementation of a new accounting software system. The County is aware of this deadline and will make all necessary changes to ensure that the deadline is met well in advance in subsequent years.
<u>Contact Person Responsible for Corrective Action:</u>	Mary Johnson, County Auditor
<u>Anticipated Completion Date:</u>	Immediate

ORANGE COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

None