

ORANGE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2013**

ORANGE COUNTY, TEXAS

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FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Orange County, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–9 and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange County, Texas', basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange County, Texas' internal control over financial reporting and compliance.

Patillo, Braun & Hill, L.L.P.

Waco, Texas
October 9, 2014

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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, 2013. 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, 2013, by \$38,937,949 (net position). Of this amount, (\$9,575,126) (unrestricted net position) 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 position decreased by \$408,032
- As of the close of the current fiscal year, Orange County's governmental funds reported combined ending fund balances of \$1,844,709. Of this amount, (\$2,944,846) is unassigned fund balance available for use within the County's discretion.
- As of September 30, 2013, unassigned fund balance for the General Fund was (\$2,624,559) or -6% 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 Position* presents information on all of Orange County's assets and liabilities with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Orange County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position 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 six 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 four 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.

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.

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.

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.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

Governmental Activities:

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of Orange County, assets exceeded liabilities by \$38,937,949 as of September 30, 2013.

A portion of the County's net position, \$43,723,520, 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 POSITION

	Governmental Activities	
	2013	2012
Current assets	\$ 9,370,326	\$ 13,171,672
Capital assets	43,723,520	40,883,061
Total assets	<u>53,093,846</u>	<u>54,054,733</u>
Current liabilities	4,903,607	7,651,698
Noncurrent liabilities	9,252,290	7,057,054
Total liabilities	<u>14,155,897</u>	<u>14,708,752</u>
Net position:		
Net investment in capital assets	43,723,520	40,883,061
Restricted	4,789,555	6,142,649
Unrestricted	<u>(9,575,126)</u>	<u>(7,679,729)</u>
Total net position	<u>\$ 38,937,949</u>	<u>\$ 39,345,981</u>

An additional portion of the County's net position \$4,789,555, represents resources that are subject to external restriction on how they may be used. The remaining balance, (\$9,575,126), of unrestricted net position 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 \$408,032 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, 2013.

ORANGE COUNTY'S CHANGES IN NET POSITION

	Governmental Activities	
	2013	2012
REVENUES		
Program revenues:		
Charges for services	\$ 6,366,171	\$ 6,243,616
Operating grants and contributions	4,834,128	8,898,471
General revenues:		
Property taxes	27,069,248	25,801,879
Other taxes	4,410,568	3,890,317
Investment earnings	33,578	41,694
Other	1,632,422	1,285,584
Total revenues	<u>44,346,115</u>	<u>46,161,561</u>
EXPENSES		
General government	14,808,861	16,788,617
Legal	6,630,702	6,643,768
Public works	6,479,223	6,891,509
Social services	3,204,864	3,918,151
Public safety	13,630,497	14,730,743
Interest on long-term debt	-	5,021
Total expenses	<u>44,754,147</u>	<u>48,977,810</u>
CHANGE IN NET POSITION	(408,032)	(2,816,249)
NET POSITION, BEGINNING	39,345,981	38,652,480
PRIOR PERIOD ADJUSTMENT	-	3,509,750
NET POSITION, ENDING	<u>\$ 38,937,949</u>	<u>\$ 39,345,981</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds – The focus of the Orange County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Orange County's governmental funds reported combined ending fund balances of \$1,844,709. Approximately (\$2,944,846) constitutes unassigned fund balance and the remaining \$4,789,555 of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for other items. The actual increase to fund balance for the General Fund was \$320,725 for fiscal year 2013.

In the General Fund, the variance in actual revenue received compared to the budgeted amount was \$2,439,684. Sales taxes collected were \$610,568 more than budget. Other governmental support was \$2,653,668 more than expected.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- Actual revenues were more than the budgeted revenues by \$2,439,684.
- Actual revenues were more than actual expenditures by \$216,570.
- Actual expenditures were less than the final budgeted amount by \$2,221,495.

CAPITAL ASSETS

Orange County's investment in capital assets for its governmental activities as of September 30, 2013, amounts to \$43,723,520 (net of accumulated depreciation). This investment in capital assets included land, building, equipment and improvements (other than buildings). Major capital asset events occurring during the current fiscal year included the following:

- Capitalized \$53,644 in Courthouse Security equipment;
- Capitalized \$10,675,291 in new buildings;
- Capitalized \$508,000 in Road and Bridge equipment;
- Capitalized \$110,094 in Transportation equipment; and
- Capitalized \$148,640 in Sheriff equipment.

ORANGE COUNTY'S CAPITAL ASSETS (net of depreciation)

	Governmental Activities	
	2013	2012
Land	\$ 1,686,999	\$ 1,686,999
Buildings and improvements	32,854,450	19,157,423
Machinery and equipment	13,349,993	13,728,905
Infrastructure	27,286,354	27,286,354
Construction in progress	-	9,035,824
Less: accumulated depreciation	(31,454,276)	(30,012,444)
Total	<u>\$ 43,723,520</u>	<u>\$ 40,883,061</u>

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

DEBT ADMINISTRATION

At the end of the current fiscal year, Orange County had total bonded debt outstanding of \$0. The County paid off all outstanding debt during fiscal year 2012.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Estimated revenue for fiscal year 2013-2014 is \$37,739,064 for General Fund, and estimated expenditures are \$40,272,139. The tax rate increased from \$0.52990 to \$0.54400.

All of these factors were considered in preparing Orange County's budget for the 2014 fiscal year.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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ORANGE COUNTY, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 924,424
Investments	3,154,278
Receivables (net of allowances for uncollectibles)	
Property taxes	2,963,162
Sales tax receivable	645,266
Adjudicated fines	905,095
Other receivable	894
Due from other governments	777,207
Capital assets:	
Non-depreciable	1,686,999
Depreciable, net	42,036,521
Total assets	<u>53,093,846</u>
LIABILITIES	
Accounts payable	1,092,873
Due to beneficiaries	472,220
Unearned revenue	2,134,897
Accrued salaries and payroll liabilities	1,203,617
Noncurrent liabilities:	
Due within one year	607,514
Due in more than one year	8,644,776
Total liabilities	<u>14,155,897</u>
NET POSITION	
Net investment in capital assets	43,723,520
Restricted	4,789,555
Unrestricted	(9,575,126)
Total net position	<u>\$ 38,937,949</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, 2013

Functions/Programs	Expenses	Program Revenues		Primary
		Charges for Services	Operating Grants and Contributions	Government Governmental Activities
Primary Government:				
Governmental activities:				
General government	\$ 14,808,861	\$ 970,867	\$ 1,448,860	\$(12,389,134)
Legal	6,630,702	3,077,833	461,357	(3,091,512)
Public works	6,479,223	1,920,334	453,325	(4,105,564)
Social services	3,204,864	102,728	96,880	(3,005,256)
Public safety	13,630,497	294,409	2,373,706	(10,962,382)
Total governmental activities	44,754,147	6,366,171	4,834,128	(33,553,848)
General revenues:				
Taxes:				
Property taxes				27,069,219
Property taxes-debt service				29
Sales and use taxes				4,410,568
Investment earnings				33,578
Miscellaneous				1,632,422
Total general revenues				33,145,816
Change in net position				(408,032)
Net position, beginning				39,345,981
Net position, ending				\$ 38,937,949

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, 2013

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 779,221	\$ 90,078	\$ 55,125	\$ 924,424
Investments	3,149,780	-	4,498	3,154,278
Sales tax receivable	645,266	-	-	645,266
Taxes receivable, net	2,668,958	160,106	134,098	2,963,162
Adjudicated fines receivable	905,095	-	-	905,095
Other receivables	894	-	-	894
Due from other funds	1,703,001	1,142,510	-	2,845,511
Receivable from other governments	777,207	-	-	777,207
Total assets	<u>10,629,422</u>	<u>1,392,694</u>	<u>193,721</u>	<u>12,215,837</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	477,742	168,860	113,987	760,589
Accrued liabilities	1,203,617	-	-	1,203,617
Due to other funds	1,142,510	640,565	276,532	2,059,607
Due to beneficiaries	472,220	-	-	472,220
Deferred revenue	5,597,739	149,392	127,964	5,875,095
Total liabilities	<u>8,893,828</u>	<u>958,817</u>	<u>518,483</u>	<u>10,371,128</u>
Fund balances:				
Restricted	4,360,153	433,877	(4,475)	4,789,555
Unassigned	(2,624,559)	-	(320,287)	(2,944,846)
Total fund balances	<u>1,735,594</u>	<u>433,877</u>	<u>(324,762)</u>	<u>1,844,709</u>
Total liabilities and fund balances	<u>\$ 10,629,422</u>	<u>\$ 1,392,694</u>	<u>\$ 193,721</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. 43,723,520

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 3,740,198

An Internal Service Fund is used by management to charge the cost of certain capital assets to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the statement of net assets. (1,118,188)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (9,252,290)

Net assets of governmental activities \$ 38,937,949

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, 2013

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 24,683,433	\$ 1,128,181	\$ 944,172	\$ 26,755,786
Sales taxes	4,410,568	-	-	4,410,568
Miscellaneous taxes	260,578	-	-	260,578
Other governmental support	5,134,278	-	-	5,134,278
Fees of office	4,024,383	1,792,762	-	5,817,145
Forfeitures	160,377	-	-	160,377
Interest	31,587	1,607	384	33,578
Other	1,162,402	216,126	201,487	1,580,015
Payments in lieu of taxes	67,334	-	-	67,334
Total revenues	<u>39,934,940</u>	<u>3,138,676</u>	<u>1,146,043</u>	<u>44,219,659</u>
EXPENDITURES				
Current:				
General government	13,344,436	-	207,400	13,551,836
Legal	6,084,219	-	-	6,084,219
Public works	792,839	4,161,130	-	4,953,969
Social services	1,955,061	-	1,017,374	2,972,435
Public safety	13,677,914	-	-	13,677,914
Capital outlay	3,863,901	158,000	16,322	4,038,223
Total expenditures	<u>39,718,370</u>	<u>4,319,130</u>	<u>1,241,096</u>	<u>45,278,596</u>
EXCESS REVENUES OVER EXPENDITURES	<u>216,570</u>	<u>(1,180,454)</u>	<u>(95,053)</u>	<u>(1,058,937)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	104,155	-	-	104,155
Total other financing sources (uses)	<u>104,155</u>	<u>-</u>	<u>-</u>	<u>104,155</u>
NET CHANGE IN FUND BALANCES	320,725	(1,180,454)	(95,053)	(954,782)
FUND BALANCES, BEGINNING	1,414,869	1,614,331	(229,709)	2,799,491
FUND BALANCES, ENDING	<u>\$ 1,735,594</u>	<u>\$ 433,877</u>	<u>\$(324,762)</u>	<u>\$ 1,844,709</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, 2013

Net change in fund balances - total governmental funds: \$(954,782)

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. 2,840,459

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. 126,456

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. (2,195,236)

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. (224,929)

Change in net assets of governmental activities \$(408,032)

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

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ORANGE COUNTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	<u>Internal Service</u>
ASSETS	
Total assets	<u>-</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	332,284
Due to other funds	<u>785,904</u>
Total current liabilities	<u>1,118,188</u>
Total liabilities	<u>1,118,188</u>
NET POSITION	
Unrestricted	(<u>1,118,188</u>)
Total net position	<u>\$(1,118,188)</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 NET POSITION**

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Internal Service</u>
REVENUES	
Employer contributions	5,025,818
Employee contributions	<u>828,039</u>
Total operating revenues	<u>5,853,857</u>
OPERATING EXPENSES	
Claims	3,418,104
Other charges	<u>2,660,682</u>
Total operating expenses	<u>6,078,786</u>
OPERATING LOSS	(224,929)
CHANGE IN NET POSITION	(224,929)
TOTAL NET POSITION, BEGINNING	(<u>893,259</u>)
TOTAL NET POSITION, ENDING	\$(<u>1,118,188</u>)

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

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YEAR ENDED SEPTEMBER 30, 2013

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 5,853,857
Cash paid to suppliers for goods and services	(5,853,857)
Net cash used by operating activities	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS, BEGINNING	-
CASH AND CASH EQUIVALENTS, ENDING	\$ -
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (224,929)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase (decrease) in liabilities:	
Accounts payable	(281,246)
Due to other funds	506,175
Net cash used by operations	\$ -

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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 24,620,661	\$ 24,620,661	\$ 24,683,433	\$ 62,772
Sales taxes	3,800,000	3,800,000	4,410,568	610,568
Miscellaneous taxes	227,272	227,272	260,578	33,306
Other governmental support	1,785,423	2,480,610	5,134,278	2,653,668
Payments in lieu of taxes	-	-	67,334	67,334
Fees of office	3,494,963	4,266,533	4,024,383	(242,150)
Forfeiture	51,350	51,350	160,377	109,027
Interest	62,355	62,705	31,587	(31,118)
Other	1,967,630	1,986,125	1,162,402	(823,723)
Total revenues	<u>36,009,654</u>	<u>37,495,256</u>	<u>39,934,940</u>	<u>2,439,684</u>
EXPENDITURES				
Current:				
General government	14,233,218	14,295,547	13,344,436	951,111
Legal	5,174,567	6,998,839	6,084,219	914,620
Public works	670,410	693,710	792,839	(99,129)
Social services	2,252,480	2,267,480	1,955,061	312,419
Public safety	15,619,016	15,636,282	13,677,914	1,958,368
Capital outlay	2,010,996	2,048,007	3,863,901	(1,815,894)
Total expenditures	<u>39,960,687</u>	<u>41,939,865</u>	<u>39,718,370</u>	<u>2,221,495</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,951,033)</u>	<u>(4,444,609)</u>	<u>216,570</u>	<u>4,661,179</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	104,155	104,155
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>104,155</u>	<u>104,155</u>
NET CHANGE IN FUND BALANCES	<u>(3,951,033)</u>	<u>(4,444,609)</u>	<u>320,725</u>	<u>4,765,334</u>
FUND BALANCES, BEGINNING	<u>1,414,869</u>	<u>1,414,869</u>	<u>1,414,869</u>	<u>-</u>
FUND BALANCES, ENDING	<u><u>\$ (2,536,164)</u></u>	<u><u>\$ (3,029,740)</u></u>	<u><u>\$ 1,735,594</u></u>	<u><u>\$ 4,765,334</u></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, 2013

	<u>Agency Funds</u>
ASSETS	
Cash	\$ <u>2,674,021</u>
Total assets	\$ <u>2,674,021</u>
LIABILITIES	
Due to others	\$ <u>2,674,021</u>
Total liabilities	\$ <u>2,674,021</u>

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

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ORANGE COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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 is 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.

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 Fund** is 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 Position 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.

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, 2013, 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 \$0.5299 per \$100 of assessed valuation that were prorated between operations, road and bridge, and mosquito control in the amounts of \$0.48900, \$0.02239, and \$0.01851 respectively. The resulting adjusted tax levies were approximately \$24.6, \$1.1, and \$.9 million for operations, road and bridge, and mosquito control, respectively, based on a total adjusted taxable valuation of approximately \$5,076,697,588 for the 2012 tax year.

Inventories

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

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

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 60 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.

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 the 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, 2013, are as follows:

Restricted Assets

Foster Care	\$ 198,042
Adult Probation	243,626
Voter Registration	4,063
South East Texas Auto Theft Task Force	62,209
Payroll	4,888
Law Library	232,743
District Attorney Drug Forfeiture	231,092
DWI Audio	67,686
Contributions	13,762
District Clerk Records Management	297,906
Child Support Title 4-D	159,102
District Attorney Federal Drug Forfeiture	36,876
Juvenile Probation	28,528
Constable #2 State Forfeiture	4,495
TCDP ORCA Grant	19,572
Law Enforcement Training	11,067
Mobile Volunteer Grant Program	12,667
Tax A-C VIT Interest	30,175
Bail Bonds	67,587
County State Drug Seizure	4,246
Child Welfare Jury	28,622
Drug Forfeiture: Precinct #2	12,930
County Clerk Records Management	359,261
Community Corrections	357,453
Constable Precinct #1 - Drug Seizure	36,066
Records Management	131,301
Indigent Defense	375,211
Courthouse Security	224,282
Probate Education	19,148
Gambling and Child Porn Forfeiture	128,703
Treasury Forfeiture	22,874
Veterans Donations	864
Justice of the Peace Technology	102,701
Family Protection Fees	80,820
Hotel / Motel Tax	614,076
Forfeiture Proceeds	25,840
Constable #2 Treasury Forfeiture	2,682
TDRA	<u>106,987</u>
Total Restricted Assets	\$ <u>4,360,153</u>

Net Position

Net position represents the difference between assets and liabilities. Net position 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 position is 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 Position

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 \$(9,252,290) difference are as follows:

OPEB Liability	\$(6,822,235)
Compensated absences	(2,430,055)
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$(9,252,290)

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 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 \$2,840,459 difference are as follows:

Capital outlay	\$ 5,624,960
Depreciation expense	(2,473,649)
Deletion of capital assets	(310,852)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 2,840,459

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 \$126,456 difference are as follows:

Property taxes	\$ 313,462
Miscellaneous revenue	(187,006)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>126,456</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 \$(2,195,236) difference are as follows:

Compensated absences	\$ 359,429
OPEB liability	(2,554,665)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>(2,195,236)</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Data

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

The County Judge is, by statute, the County Budget Officer and has the responsibility of preparing the annual budget. In April of each year, preparations are made for departments' submittals of their budget requests for the following year. During June and July, the Commissioners' Court conducts informal hearings with each department head to discuss his/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 Court, no expenditures of the funds of the County are made, except in substantive compliance with the budget.

The 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 is recorded as an expense of the new fiscal year.
3. Budget Basis: The budget is adopted whereby the Commissioner's Court does not budget certain designated-purpose fee revenues and expenditures. 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 addresses 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, 2013, the County had a bank balance of \$5,176,024. Of this amount, \$4,884,275 was collateralized with securities held by the pledging financial institution and the remaining deposits were covered by FDIC insurance.

2. *Credit Risk:* It is the County's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The County's investments in TexPool are rated AAAM by Standard & Poor's Investors Service.
3. *Interest Rate Risk:* In accordance with the County's investment policy, the County manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to 25 months or less, dependent on market conditions.
4. *Concentration of Credit Risk:* The County's investment policy states the maximum percentage allowed for each different investment that can be used to make up the portfolio.

The County's investments at September 30, 2013, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Primary government:		
TexPool	\$ <u>1,963,848</u>	78
Total fair value	\$ <u>1,963,848</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	\$ 645,266	\$ -	\$ -	\$ 645,266
Property taxes	2,668,958	160,106	134,098	2,963,162
Adjudicated fines	9,050,951	-	-	9,050,951
Other	894	-	-	894
Due from other governments	<u>777,207</u>	<u>-</u>	<u>-</u>	<u>777,207</u>
Gross receivables	13,143,276	160,106	134,098	13,437,480
Less: allowance for uncollectibles	<u>(8,145,856)</u>	<u>-</u>	<u>-</u>	<u>(8,145,856)</u>
Net total receivables	\$ <u>4,997,420</u>	\$ <u>160,106</u>	\$ <u>134,098</u>	\$ <u>5,291,624</u>

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General fund:			
Delinquent property taxes receivable	\$ 2,556,272	\$ -	\$ 2,556,272
Adjudicated fines	906,570	-	906,570
Grant revenues	-	2,134,897	2,134,897
Total general fund	<u>3,462,842</u>	<u>2,134,897</u>	<u>5,597,739</u>
Road and bridge fund:			
Delinquent property taxes receivable	<u>149,392</u>	<u>-</u>	<u>149,392</u>
Total general fund	<u>149,392</u>	<u>-</u>	<u>149,392</u>
Nonmajor governmental funds:			
Delinquent property taxes receivable	<u>127,964</u>	<u>-</u>	<u>127,964</u>
Governmental funds	<u>\$ 3,740,198</u>	<u>\$ 2,134,897</u>	<u>\$ 5,875,095</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Government activities:					
Capital assets, not being depreciated:					
Land	\$ 1,686,999	\$ -	\$ -		\$ 1,686,999
Construction in progress	<u>9,035,824</u>	<u>3,025,478</u>	<u>(12,175,579)</u>	<u>114,277</u>	<u>-</u>
Total capital assets not being depreciated	<u>10,722,823</u>	<u>3,025,478</u>	<u>(12,175,579)</u>	<u>114,277</u>	<u>1,686,999</u>
Capital assets, being depreciated:					
Buildings and improvements	19,157,423	13,697,028	-		32,854,451
Furniture, fixtures and equipment	13,728,905	934,657	(1,342,669)	29,100	13,349,993
Infrastructure	<u>27,286,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,286,354</u>
Total capital assets being depreciated	<u>60,172,682</u>	<u>14,631,685</u>	<u>(1,342,669)</u>	<u>29,100</u>	<u>73,490,798</u>
Less accumulated depreciation:					
Buildings	8,466,134	530,301	-		8,996,435
Furniture, fixtures and equipment	8,750,099	1,172,914	(1,031,817)		8,891,196
Infrastructure	<u>12,796,212</u>	<u>770,434</u>	<u>-</u>	<u>-</u>	<u>13,566,646</u>
Total accumulated depreciation	<u>30,012,445</u>	<u>2,473,649</u>	<u>(1,031,817)</u>	<u>-</u>	<u>31,454,277</u>
Total capital assets, being depreciated, net	<u>30,160,237</u>	<u>12,158,036</u>	<u>(310,852)</u>	<u>29,100</u>	<u>42,036,521</u>
Governmental activities capital assets, net	<u>\$ 40,883,060</u>	<u>\$ 15,183,514</u>	<u>\$(12,486,431)</u>	<u>\$ 143,377</u>	<u>\$ 43,723,520</u>

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

Governmental activities:	
General administration	\$ 247,365
Public works	1,261,561
Legal	222,629
Social services	74,209
Public safety	<u>667,885</u>
 Total depreciation expense - governmental activities	 \$ <u>2,473,649</u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances (due to/from other funds) as of September 30, 2013, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and bridge	\$ 640,565
	Nonmajor governmental	276,532
	Internal service	785,904
Road and bridge	General	<u>1,142,510</u>
 Total		 \$ <u>2,845,511</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 obligations

Plan Description

Orange County provides retirement, disability, and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 624 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at age 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.

Funding Policy

The employer has elected the annually determined contribution rate ("Variable Rate") plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The County's contribution is based on the actuarially determined rate of 13.09% for the months of the accounting year in 2013, and 12.44% for the months of the accounting year in 2012.

The contribution rate payable by the employee members for calendar year 2013 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.

Funding Pension Cost

For the employer's accounting year ending September 30, 2013, the annual pension cost for the TCDRS plan for its employees was \$2,635,831 and the actual contributions were \$2,635,831.

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, 2011 and December 31, 2012, the basis for determining the contribution rates for calendar years 2012 and 2013. The December 31, 2012, actuarial valuation is the most recent valuation.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
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	5.40%	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
09/30/11	\$ 2,346,982	100%	\$ -
09/30/12	2,489,788	100%	-
09/30/13	2,635,831	100%	-

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

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	\$ 57,584,677	\$ 69,495,789	\$ 11,911,112	82.86%	\$ 19,493,048	61.10%
2011	59,740,827	73,204,491	13,463,664	81.61%	19,980,579	67.38%
2012	60,820,012	75,754,396	14,934,384	80.29%	20,331,765	73.45%

F. Other postemployment benefit (OPEB) obligations

Plan Description

The County provides postretirement health care and death benefits to eligible retirees 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.

Funding Policy

The County pays 100% of the contribution for the individual medical coverage and for the retiree death benefit. The retiree pays 100% of the contribution for medical dependent coverage and dental coverage. All active employees who retire directly from Orange County and meet the eligibility criteria may participate.

Annual OPEB Cost and Net OPEB Obligation

The County's single-employer annual other postemployment benefit (OPEB) plan cost (expense) is calculated based on the employer's annual required contribution (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)	\$ 4,223,305
Interest on Net Pension Obligation	192,041
Adjustment to the ARC	(256,290)
Annual Pension Cost	4,159,056
Contributions Made	(1,604,391)
Increase (decrease) in net pension obligation	2,554,665
Net pension obligation/(asset), beginning	<u>4,267,570</u>
Net pension obligation (asset), ending	<u>\$ 6,822,235</u>

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 chart below:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of APC Contributed	Net OPEB Obligation
9/30/2011	\$ 2,834,736	\$ 816,578	28.81%	\$ 2,018,158
9/30/2012	3,044,112	794,700	26.11%	4,267,570
9/30/2013	4,159,056	1,604,391	38.58%	6,822,235

Funding Status and Funding Progress

As of October 1, 2012, the actuarial accrued liability for benefits was \$39,085,746 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$19,470,423 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 200.74%.

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 September 30, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 % investment rate of return (net of investment expenses) and an annual health care costs trend rate of 5 %. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at September 30, 2013, was 29 years. Inflation rates were assumed to be 3%.

G. Long-term Debt

The following is a summary of general long-term debt activity of Orange County, Texas for the year ended September 30, 2013:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Balance 09/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 09/30/13</u>	<u>Due Within One Year</u>
Compensated absences			2,789,484	778,274	1,137,703	2,430,055	607,514
OPEB liability			<u>4,267,570</u>	<u>2,554,665</u>	<u>-</u>	<u>6,822,235</u>	<u>-</u>
Total			<u>\$ 7,057,054</u>	<u>\$ 3,332,939</u>	<u>\$ 1,137,703</u>	<u>\$ 9,252,290</u>	<u>\$ 607,514</u>

H. 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.

I. Commitments and Contingencies

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 collectability of any related receivable at September 30, 2013, 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.

J. Subsequent Events

On October 1, 2013, the County issued \$4,000,000 tax and revenue anticipation notes for the purpose of paying all or a portion of the issuer's operating and current expenses in accordance with the provisions of Section 1431.004(a) (2) of the Texas Government Code. This is a draw note; the issuer may draw up to the total principal amount hereof to pay its budgeted operating expenses for the fiscal year ended September 30, 2014. The interest on this note is 1.95% per annum and the maturity date is February 28, 2014.

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**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

Orange County Expo Center

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, 2013

	Mosquito Control	Economic Development Corporation	Orange County Expo Center	Debt Service	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ -	750	\$ 54,375	\$ 55,125
Investments	-	-	-	4,498	4,498
Taxes receivable, net	<u>82,478</u>	<u>-</u>	<u>-</u>	<u>51,620</u>	<u>134,098</u>
Total assets	<u>\$ 82,478</u>	<u>\$ -</u>	<u>\$ 750</u>	<u>\$ 110,493</u>	<u>\$ 193,721</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	108,762	-	5,225	-	\$ 113,987
Due to other funds	149,395	23,850	-	103,287	276,532
Deferred revenue	<u>76,687</u>	<u>-</u>	<u>-</u>	<u>51,277</u>	<u>127,964</u>
Total liabilities	<u>334,844</u>	<u>23,850</u>	<u>5,225</u>	<u>154,564</u>	<u>518,483</u>
Fund balances:					
Restricted	-	-	(4,475)	-	(4,475)
Unassigned	<u>(252,366)</u>	<u>(23,850)</u>	<u>-</u>	<u>(44,071)</u>	<u>(320,287)</u>
Total fund balances	<u>(252,366)</u>	<u>(23,850)</u>	<u>(4,475)</u>	<u>(44,071)</u>	<u>(324,762)</u>
Total liabilities and fund balances	<u>\$ 82,478</u>	<u>\$ -</u>	<u>\$ 750</u>	<u>\$ 110,493</u>	<u>\$ 193,721</u>

ORANGE COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Mosquito Control	Economic Development Corporation	Orange County Expo Center	Debt Service	Total Other Governmental Funds
REVENUES					
Property taxes	\$ 944,143	-	\$ -	\$ 29	\$ 944,172
Interest	370	-	-	14	384
Other	<u>-</u>	<u>200,737</u>	<u>750</u>	<u>-</u>	<u>201,487</u>
Total revenues	<u>944,513</u>	<u>200,737</u>	<u>750</u>	<u>43</u>	<u>1,146,043</u>
EXPENDITURES					
Current:					
General government	-	202,175	5,225	-	207,400
Social services	1,017,374	-	-	-	1,017,374
Capital outlay	<u>16,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,322</u>
Debt service:					
Principal	-	-	-	-	-
Interest and other charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,033,696</u>	<u>202,175</u>	<u>5,225</u>	<u>-</u>	<u>1,241,096</u>
NET CHANGE IN FUND BALANCES	(89,183)	(1,438)	(4,475)	43	(95,053)
FUND BALANCES, BEGINNING	(163,183)	(22,412)	-	(44,114)	(229,709)
FUND BALANCES, ENDING	<u>\$ (252,366)</u>	<u>\$ (23,850)</u>	<u>\$ (4,475)</u>	<u>\$ (44,071)</u>	<u>\$ (324,762)</u>

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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,119,097	\$ 1,119,097	\$ 1,128,181	\$ 9,084
Fees and fines	1,759,169	1,759,169	1,792,762	33,593
Interest	4,452	4,452	1,607	(2,845)
Other revenue	54,720	120,278	216,126	95,848
Total revenues	<u>2,937,438</u>	<u>3,002,996</u>	<u>3,138,676</u>	<u>135,680</u>
EXPENDITURES				
Current:				
Public works	4,215,190	4,281,748	4,161,130	120,618
Capital outlay	<u>158,000</u>	<u>158,000</u>	<u>158,000</u>	<u>-</u>
Total expenditures	<u>4,373,190</u>	<u>4,439,748</u>	<u>4,319,130</u>	<u>120,618</u>
NET CHANGE IN FUND BALANCE	(1,435,752)	(1,436,752)	(1,180,454)	256,298
FUND BALANCES, BEGINNING	<u>1,614,331</u>	<u>1,614,331</u>	<u>1,614,331</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 178,579</u>	<u>\$ 177,579</u>	<u>\$ 433,877</u>	<u>\$ 256,298</u>

FIDUCIARY FUNDS

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

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

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

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

Tax Assessor – 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, 2013

	District Attorney	Justices of the Peace	County Clerk	District Clerk	Tax Assessor	Child Support	Orange Co. Juvenile Probation	Orange Co. Adult Probation	Sheriff	Total
ASSETS										
Cash	\$ 18,986	\$ 26,776	\$ 937,830	\$ 253,725	\$ 1,184,206	\$ 170	\$ 31,497	\$ 34,682	\$ 186,149	\$ 2,674,021
Total assets	\$ 18,986	\$ 26,776	\$ 937,830	\$ 253,725	\$ 1,184,206	\$ 170	\$ 31,497	\$ 34,682	\$ 186,149	\$ 2,674,021
LIABILITIES										
Due to others	\$ 18,986	\$ 26,776	\$ 937,830	\$ 253,725	\$ 1,184,206	\$ 170	\$ 31,497	\$ 34,682	\$ 186,149	\$ 2,674,021
Total liabilities	\$ 18,986	\$ 26,776	\$ 937,830	\$ 253,725	\$ 1,184,206	\$ 170	\$ 31,497	\$ 34,682	\$ 186,149	\$ 2,674,021

SINGLE AUDIT

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P A T T I L L O , B R O W N & H I L L , L L P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' 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 Members of the Commissioners' Court
Orange County, Texas
Orange, Texas

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Patillo, Brian & Hill, L.L.P.

Waco, Texas
October 9, 2014



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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Orange County, Texas' 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 Orange County, Texas' major federal programs for the year ended September 30, 2013. Orange County, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Orange County, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. 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 Non-Profit 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 Orange County, Texas' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Orange County, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, Orange County, Texas, complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2013-1. Our opinion on each major federal program is not modified with respect to this matter.

The County's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Orange County, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Orange County, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Orange County, Texas' internal control over compliance.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas

October 9, 2014

ORANGE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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 General Land Office:			
Community Development Block Grant	14.228	10-5288-000-5295	\$ 2,688,793
Community Development Block Grant	14.228	13-139-000-7217	<u>40,586</u>
Total Passed through Texas General Land Office			<u>2,729,379</u>
Total U. S. Department of Housing and Urban Development			<u>2,729,379</u>
<u>U. S. Department of the Interior</u>			
Passed through Fish and Wildlife Services			
Coastal Protection Assistance Program	15.668	F12AF70017	<u>454,275</u>
Total Passed through Fish and Wildlife Services			<u>454,275</u>
Total U. S. Department of the Interior			<u>454,275</u>
<u>U. S. Department of Justice</u>			
Direct program			
IRS Equitable Sharing Program	16.922	TX1810000	152,237
Bulletproof Vest Partnership	16.607		<u>7,470</u>
Total Direct programs			<u>159,707</u>
Passed through Office of the Governor, Criminal Justice Division			
Edward Byrne Memorial Justice Assistance	16.738	2010-DJ-BX-0665	<u>6,596</u>
Total Passed through Office of the Governor, Criminal Justice Division			<u>6,596</u>
Total U. S. Department of Justice			<u>166,303</u>
<u>U. S. Department of Transportation</u>			
Passed through Southeast Texas Regional Planning Commission:			
Transportation Services - Section 5311	20.509	RPT-1202(20)35	192,142
Transportation Services - Section 5311	20.509	RPT-1302(20)36	<u>25,252</u>
Total Passed through Southeast Texas Regional Planning Commission			<u>217,394</u>
Total U. S. Department of Transportation			<u>217,394</u>

ORANGE COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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	19,429
Total Passed through Texas Secretary of State			19,429
Total U. S. Elections Assistance Commission			19,429
<u>U. S. Department of Homeland Security</u>			
Passed through Texas Department of Public Safety			
Division of Emergency Management:			
Emergency Management Performance Grant	97.042	13TX-EMPG-0410	26,507
State Homeland Security (SHSP)	97.067	11-SR-48361-01	64,287
State Homeland Security (SHSP/LETPA)	97.067	11-SR-48361-02	39,012
State Homeland Security (SHSP/CCP)	97.067	11-SR-48361-03	4,017
Total Passed through Texas Department of Public Safety Division of Emergency Management			133,823
Passed through Jefferson County:			
Port Security Grant Program	97.056	2010-PU-T0-K040	69,576
Total Passed through Jefferson County			69,576
Total U. S. Department of Homeland Security			203,399
Total Expenditures of Federal Awards			\$ 3,790,179

ORANGE COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2013

1. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards (the "Schedule") is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. REPORTING ENTITY

Orange County, Texas (the County), for purposes of the Schedule of Expenditures of Federal Awards, includes all the funds of the primary government.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The information included in the Schedule may not fully agree with other federal award reports that the County submits to granting agencies because, among other reasons, the award reports may be prepared for a different fiscal period and may include cumulative (from prior years) data rather than data for the current year only.

ORANGE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unmodified
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?	None
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major programs	Unmodified
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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?	2013-001
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
#14.228	Community Development Block 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?	No
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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

ORANGE COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2013

Findings and Questioned Costs for Federal Awards

<u>Item 2013-001:</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, 2013 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>	Loss of key audit staff members coupled with the increased demands to close out Hurricane Ike grants with FEMA contributed to the delay in filing timely. This situation has been remedied by hiring additional staff members that will insure timely filing in the future.
<u>Contact Person Responsible for Corrective Action:</u>	Mary Johnson, County Auditor
<u>Anticipated Completion Date:</u>	Immediate



P A T T I L L O , B R O W N & H I L L , L L P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To the Honorable County Judge
And County Commissioners
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, for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 9, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets is based on the expected lifespan of the asset in accordance with standard guidelines. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible property taxes is based on a historical rate of outstanding property taxes at September 30, 2013. We evaluated the key factors and assumptions used to develop the allowance for uncollectible property taxes in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 9, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the

information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Significant Forthcoming Accounting Standards

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Governmental Accounting Standards Board Statement No. 65 ("GASB 65"), *Items Previously Reported as Assets and Liabilities*, is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27

Governmental Accounting Standards Board Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, is effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The new standards are intended to provide more comparable and visible information within the annual financial statements of governments that provide defined benefit pensions.

Notably, GASB 68 requires employers to report the difference between the actuarial total pension liability and the fair value of the legally restricted plan assets as the net pension liability on the statement of net position. Previously, a liability was only recorded if the actual contributions made to the plan were less than the actuarial calculated contributions for the year. These new standards relate only to the *accounting and reporting* of defined benefit pensions within the GAAP based financial statements of governmental entities. They do not establish requirements as to the actual funding of these benefits. These decisions are left to management and the governing body. This Statement may have a material impact on recorded pension liabilities compared to application of current standards. Your processes should be updated to incorporate the new information requirements and begin gathering information now to determine the future impacts on financial reporting.

Pa#illo, Brown & Hill, L.L.P.

October 9, 2014