

**ORANGE COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2017**

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**ORANGE COUNTY, TEXAS**

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# **FINANCIAL SECTION**

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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

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, 2017, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County, Texas, as of September 30, 2017, and the respective changes in financial position 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, the Schedule of Funding Progress – Post-Employment Health Care Benefit Plan, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of Contributions 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 County's basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are presented for purposes of additional analysis and are 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 fund financial statements and 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 July 2, 2018, 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.

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

Waco, Texas  
July 2, 2018

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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 Annual Financial Report (AFR) presents a discussion and analysis of the County's financial performance during the fiscal year that ended September 30, 2017. It should be read in conjunction with the County's financial statements, which follow this part of the AFR.

#### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of Orange County exceeded its liabilities and deferred inflows of resources as of September 30, 2017, by \$27,055,887 (net position). Of this amount, (\$20,628,146) represents unrestricted net position. This balance, if positive, would 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 (\$3,604,421) from operations.
- As of the close of the current fiscal year, Orange County's governmental funds reported combined ending fund balances of \$13,342,722. Of this amount, (\$194,196) is unassigned fund balance which, if positive, would be available for use within the County's discretion.
- As of September 30, 2017, unassigned fund balance for the General Fund was \$0 or 0% 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 deferred outflows of resources and liabilities and deferred inflows of resources with the difference between them 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 position 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 seven individual governmental funds. Information is presented separately in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road and Bridge Fund which are considered to be major funds. Data from the other five 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 four 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$27,055,887 as of September 30, 2017.

A portion of the County's net position, \$38,124,493, 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	
	2017	2016
Current assets	\$ 22,198,110	\$ 22,975,626
Capital assets	43,430,810	40,470,357
Total assets	<u>65,628,920</u>	<u>63,445,983</u>
Deferred outflows of resources	<u>9,106,363</u>	<u>10,797,358</u>
Current liabilities	4,147,499	8,473,664
Noncurrent liabilities	<u>42,800,779</u>	<u>34,012,692</u>
Total liabilities	<u>46,948,278</u>	<u>42,486,356</u>
Deferred inflows of resources	<u>731,118</u>	<u>1,096,677</u>
Net position:		
Net investment in capital assets	38,124,493	40,470,357
Restricted	9,559,540	8,168,652
Unrestricted	<u>( 20,628,146)</u>	<u>( 17,978,701)</u>
Total net position	<u>\$ 27,055,887</u>	<u>\$ 30,660,308</u>

An additional portion of the County's net position, \$9,559,540, represents resources that are subject to external restriction on how they may be used. The remaining balance, (\$20,628,146), of unrestricted net position, if positive, 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 net position of the County decreased by (\$3,604,421) this year from operations.

**Analysis of the County's Operations** – The following table provides a summary of the County's operations for the year ended September 30, 2017.

## ORANGE COUNTY'S CHANGES IN NET POSITION

	Governmental Activities	
	2017	2016
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 5,311,652	\$ 6,969,292
Operating grants and contributions	2,869,163	5,110,211
Capital grants and contributions	853,425	1,081,803
General revenues:		
Property taxes	30,418,273	29,910,992
Other taxes	4,601,751	5,117,138
Investment earnings	88,805	75,115
Total revenues	44,143,069	48,264,551
<b>EXPENSES</b>		
General government	13,055,947	15,091,217
Legal	7,626,690	7,213,595
Public works	7,231,468	8,067,926
Social services	3,503,953	3,711,277
Public safety	16,097,691	15,864,014
Interest on long-term debt	231,741	-
Total expenses	47,747,490	49,948,029
<b>CHANGE IN NET POSITION</b>	( 3,604,421)	( 1,683,478)
<b>NET POSITION, BEGINNING</b>	30,660,308	32,548,907
<b>PRIOR PERIOD ADJUSTMENT</b>	-	( 205,121)
<b>NET POSITION, ENDING</b>	\$ 27,055,887	\$ 30,660,308

### 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 \$13,342,722. Approximately (\$194,196) constitutes unassigned fund balance, \$3,977,378 represents fund balance assigned for use in the subsequent year's budget (due to the adoption of a deficit budget in the General Fund for FY 2017), and the remaining \$9,559,540 of the fund balance is restricted to indicate that it is not available for discretionary spending because it is restricted by third parties to pay for specific items. The actual decrease to fund balance for the General Fund was (\$2,496,203) for fiscal year 2017.

In the General Fund, the variance in actual revenue received compared to the budgeted amount was (\$1,301,080). Sales taxes collected were \$500,823 less than budget and other government support was \$187,668 less than budget. Fees of office were \$1,878,574 less than expected. Additionally, property taxes were over budgeted estimates by \$1,052,098.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

- Actual revenues were less than the budgeted revenues by (\$1,301,080).
- Actual revenues were less than actual expenditures by (\$2,519,410).
- Actual expenditures were less than the final budgeted amount by \$5,386,462.

**CAPITAL ASSETS**

Orange County’s investment in capital assets for its governmental activities as of September 30, 2017, amounts to \$43,430,810 (net of accumulated depreciation). This investment in capital assets included land, building, software, equipment and improvements (other than buildings). Major capital asset events occurring during the current fiscal year included the following:

- Capitalized \$3,538,032 in construction in progress expenditures associated with energy professional costs projects;
- Capitalized \$2,057,565 for various equipment costs.

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

	Governmental Activities	
	2017	2016
Land	\$ 1,725,273	\$ 1,725,273
Buildings and improvements	33,431,009	33,428,389
Machinery and equipment	15,850,350	14,626,112
Software	928,420	928,420
Infrastructure	27,286,354	27,286,354
Construction in progress	4,893,782	1,355,750
Less: accumulated depreciation	( 40,684,378)	( 38,879,941)
Total	\$ 43,430,810	\$ 40,470,357

Additional information on the County’s capital assets can be found in Note 3 of this report.

## **DEBT ADMINISTRATION**

The accrued compensated absences decreased by \$432,236 and reflect accrued time used before revised policy limiting carryover and payout of vacation and holiday leave upon termination takes effect. The OPEB liability increased \$3,381,775 based on the actuarial valuation dated September 30, 2017, and is the result of the County's customary practice of contributing on a pay-as-you-go basis instead of the required annual amount.

The County is required to report its net pension liability as a part of the governmental activities. The ending net pension liability for the County as of September 30, 2017 is \$16,833,842.

The County issued new debt in fiscal year 2017. At the end of the year, total contractual obligations were \$5,130,000.

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

- Estimated revenue for fiscal year 2017-2018 is \$38,246,446 for the General Fund, and estimated expenditures are \$52,870,169. The tax rate decreased slightly to \$0.542 / \$100 evaluation.

All of these factors were considered in preparing Orange County's budget for the 2018 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, 2017**

	<u>Primary Government Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 16,181,468
Receivables (net of allowances for uncollectibles)	
Property taxes	3,223,386
Sales tax receivable	787,136
Adjudicated fines	1,156,259
Other receivable	560
Due from other governments	849,301
Capital assets:	
Non-depreciable	6,619,055
Depreciable, net	<u>36,811,755</u>
Total assets	<u>65,628,920</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	<u>9,106,363</u>
Total deferred outflows of resources	<u>9,106,363</u>
 <b>LIABILITIES</b>	
Accounts payable	1,588,117
Due to other governments	136,043
Due to beneficiaries	520,189
Unearned revenue	1,279,013
Accrued salaries and payroll liabilities	615,103
Accrued interest	9,034
Noncurrent liabilities:	
Due within one year	853,164
Due in more than one year	<u>41,947,615</u>
Total liabilities	<u>46,948,278</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<u>731,118</u>
Total deferred inflows of resources	<u>731,118</u>
 <b>NET POSITION</b>	
Investment in capital assets, net of related debt	38,124,493
Restricted	9,559,540
Unrestricted	<u>( 20,628,146)</u>
 Total net position	<u>\$ 27,055,887</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, 2017**

Functions/Programs	Expenses	Program Revenues			Primary Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
Governmental activities:					
General government	\$ 13,055,947	\$ 2,008,039	\$ 1,266,005	\$ -	\$( 9,781,903)
Legal	7,626,690	40,602	486,445	-	( 7,099,643)
Public works	7,231,468	1,778,953	395,777	-	( 5,056,738)
Social services	3,503,953	-	114,586	-	( 3,389,367)
Public safety	16,097,691	1,484,058	606,350	853,425	( 13,153,858)
Interest on long-term debt	231,741	-	-	-	( 231,741)
Total governmental activities	<u>\$ 47,747,490</u>	<u>\$ 5,311,652</u>	<u>\$ 2,869,163</u>	<u>\$ 853,425</u>	<u>( 38,713,250)</u>
General revenues:					
Taxes:					
					30,411,345
					6,928
					4,319,677
					282,074
					<u>88,805</u>
					<u>35,108,829</u>
					( 3,604,421)
					30,660,308
					<u>\$ 27,055,887</u>

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

**ORANGE COUNTY, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2017**

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>				
Cash and investments	\$ 13,327,274	\$ 1,828,058	\$ 1,026,136	\$ 16,181,468
Sales tax receivable	787,136	-	-	787,136
Property taxes receivable, net	2,848,230	234,344	140,812	3,223,386
Adjudicated fines receivable	1,156,259	-	-	1,156,259
Other receivables	560	-	-	560
Due from other funds	179,506	1,142,510	-	1,322,016
Receivable from other governments	849,301	-	-	849,301
Total assets	<u>19,148,266</u>	<u>3,204,912</u>	<u>1,166,948</u>	<u>23,520,126</u>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	1,291,469	283,316	13,332	1,588,117
Accrued liabilities	531,036	65,061	19,006	615,103
Due to other governments	136,043	-	-	136,043
Due to other funds	1,142,510	-	179,506	1,322,016
Due to beneficiaries	520,189	-	-	520,189
Unearned revenue	1,279,013	-	-	1,279,013
Total liabilities	<u>4,900,260</u>	<u>348,377</u>	<u>211,844</u>	<u>5,460,481</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	<u>4,334,112</u>	<u>250,962</u>	<u>131,849</u>	<u>4,716,923</u>
Total deferred inflows of resources	<u>4,334,112</u>	<u>250,962</u>	<u>131,849</u>	<u>4,716,923</u>
<b>FUND BALANCES</b>				
Restricted	5,936,516	2,605,573	1,017,451	9,559,540
Assigned for subsequent year's budget	3,977,378	-	-	3,977,378
Unassigned	<u>-</u>	<u>-</u>	<u>( 194,196)</u>	<u>( 194,196)</u>
Total fund balances	<u>9,913,894</u>	<u>2,605,573</u>	<u>823,255</u>	<u>13,342,722</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 19,148,266</u>	<u>\$ 3,204,912</u>	<u>\$ 1,166,948</u>	<u>\$ 23,520,126</u>

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

## ORANGE COUNTY, TEXAS

### RECONCILIATION OF THE STATEMENT OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances - governmental funds	\$	13,342,722
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		43,430,810
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds.		
Property taxes		3,040,135
Grants		520,519
Court fines and fees		1,156,269
Other deferred inflows and deferred outflows of resources related to pensions are reported in conjunction with the net pension liability and are not reported in the funds.		8,375,245
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Net pension liability	(	16,833,842)
Net OPEB obligation	(	18,278,339)
Compensated absences	(	2,382,281)
Accrued interest	(	9,034)
Contractual obligations	(	5,130,000)
Premiums	(	<u>176,317</u> )
Net position of governmental activities	\$	<u>27,055,887</u>

# ORANGE COUNTY, TEXAS

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

### GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 26,079,118	\$ 2,485,978	\$ 1,529,731	\$ 30,094,827
Sales taxes	4,319,677	-	-	4,319,677
Miscellaneous taxes	138,795	-	143,259	282,054
Payments in lieu of taxes	152,274	-	-	152,274
Other governmental support	3,497,569	116,169	126,681	3,740,419
Fees of office	2,366,191	1,568,688	-	3,934,879
Forfeitures	465,713	-	-	465,713
Interest	93,569	7,082	4,529	105,180
Other	398,257	83,275	172,394	653,926
Total revenues	<u>37,511,163</u>	<u>4,261,192</u>	<u>1,976,594</u>	<u>43,748,949</u>
<b>EXPENDITURES</b>				
Current:				
General government	15,130,045	-	335,012	15,465,057
Legal	6,418,267	-	-	6,418,267
Public works	1,453,316	3,896,788	-	5,350,104
Social services	2,270,390	-	877,565	3,147,955
Public safety	13,401,134	-	-	13,401,134
Debt service:				
Principal	-	-	245,000	245,000
Interest and other charges	-	-	235,301	235,301
Capital outlay	1,357,421	154,657	3,573,283	5,085,361
Total expenditures	<u>40,030,573</u>	<u>4,051,445</u>	<u>5,266,161</u>	<u>49,348,179</u>
<b>EXCESS REVENUES OVER EXPENDITURES</b>	<u>( 2,519,410)</u>	<u>209,747</u>	<u>( 3,289,567)</u>	<u>( 5,599,230)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	23,207	-	-	23,207
Issuance of debt	-	-	5,375,000	5,375,000
Premium	-	-	188,911	188,911
Total other financing sources (uses)	<u>23,207</u>	<u>-</u>	<u>5,563,911</u>	<u>5,587,118</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 2,496,203)</u>	<u>209,747</u>	<u>2,274,344</u>	<u>( 12,112)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>12,410,097</u>	<u>2,395,826</u>	<u>( 1,451,089)</u>	<u>13,354,834</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 9,913,894</u>	<u>\$ 2,605,573</u>	<u>\$ 823,255</u>	<u>\$ 13,342,722</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, 2017

Net change in fund balances - total governmental funds: \$( 12,112)

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.

Capital outlay	5,598,217
Depreciation expense	( 2,613,096)
Deletion of capital assets	( 24,668)

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.

Property taxes	323,446
Court fines and fees	70,674

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.

Net pension liability	( 1,857,667)
OPEB Liability	( 3,381,775)
Contractual obligations	( 5,306,317)
Accrued interest	( 9,034)
Compensated absences	432,236
Claims payable	<u>3,175,675</u>

Change in net position of governmental activities \$( 3,604,421)

**ORANGE COUNTY, TEXAS**

**GENERAL FUND**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 25,027,020	\$ 25,027,020	\$ 26,079,118	\$ 1,052,098
Sales taxes	4,820,500	4,820,500	4,319,677	( 500,823)
Miscellaneous taxes	304,667	304,667	138,795	( 165,872)
Payments in lieu of taxes	157,000	157,000	152,274	( 4,726)
Other governmental support	2,477,610	3,685,237	3,497,569	( 187,668)
Fees of office	3,582,265	4,244,765	2,366,191	( 1,878,574)
Forfeiture	-	-	465,713	465,713
Interest	46,742	50,442	93,569	43,127
Other	511,405	522,612	398,257	( 124,355)
Total revenues	<u>36,927,209</u>	<u>38,812,243</u>	<u>37,511,163</u>	<u>( 1,301,080)</u>
<b>EXPENDITURES</b>				
Current:				
General government	16,150,597	18,419,206	15,130,045	3,289,161
Legal	5,423,865	7,150,348	6,418,267	732,081
Public works	1,154,289	1,573,692	1,453,316	120,376
Social services	2,151,529	2,974,812	2,270,390	704,422
Public safety	13,435,491	14,019,418	13,401,134	618,284
Capital outlay	<u>832,318</u>	<u>1,279,559</u>	<u>1,357,421</u>	<u>( 77,862)</u>
Total expenditures	<u>39,148,089</u>	<u>45,417,035</u>	<u>40,030,573</u>	<u>5,386,462</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 2,220,880)</u>	<u>( 6,604,792)</u>	<u>( 2,519,410)</u>	<u>4,085,382</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	<u>-</u>	<u>-</u>	<u>23,207</u>	<u>23,207</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>23,207</u>	<u>23,207</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 2,220,880)</u>	<u>( 6,604,792)</u>	<u>( 2,496,203)</u>	<u>4,108,589</u>
<b>FUND BALANCES, BEGINNING</b>	<u>12,410,097</u>	<u>12,410,097</u>	<u>12,410,097</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 10,189,217</u>	<u>\$ 5,805,305</u>	<u>\$ 9,913,894</u>	<u>\$ 4,108,589</u>

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

**ORANGE COUNTY, TEXAS**

**ROAD AND BRIDGE FUND**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 2,343,000	\$ 2,343,000	\$ 2,485,978	\$ 142,978
Other governmental support	31,057	168,871	116,169	( 52,702)
Fees of office	1,527,979	1,527,979	1,568,688	40,709
Interest	510	510	7,082	6,572
Other revenue	92,574	92,574	83,275	( 9,299)
Total revenues	3,995,120	4,132,934	4,261,192	128,258
<b>EXPENDITURES</b>				
Current:				
Public works	3,973,254	4,111,218	3,896,788	214,430
Capital outlay	-	-	154,657	( 154,657)
Total expenditures	3,973,254	4,111,218	4,051,445	59,773
<b>NET CHANGE IN FUND BALANCE</b>	21,866	21,716	209,747	188,031
<b>FUND BALANCES, BEGINNING</b>	2,395,826	2,395,826	2,395,826	-
<b>FUND BALANCES, ENDING</b>	\$ 2,417,692	\$ 2,417,542	\$ 2,605,573	\$ 188,031

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

**ORANGE COUNTY, TEXAS**  
**FIDUCIARY FUND TYPE**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**SEPTEMBER 30, 2017**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ <u>2,989,142</u>
Total assets	<u>2,989,142</u>
<b>LIABILITIES</b>	
Due to others	<u>2,989,142</u>
Total liabilities	\$ <u>2,989,142</u>



# ORANGE COUNTY, TEXAS

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

### 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 southeastern most 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 ***Capital Projects Fund*** is used to account for the acquisition and construction of the County's major capital facilities.

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

***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 County are reported at fair value, except for the position in investment pools.

##### **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, 2017, 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.

**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 acquisition cost 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.

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:

Assets	Years
Buildings	20-50
Improvements	5-50
Equipment	5-20
Infrastructure (streets and bridges)	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 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

## **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has the following items that qualify for reporting in this category.

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.
- Difference in Expected and Actual Pension Experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in Actuarial Assumptions – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

The County has only one type of deferred inflows of resources which is required to be reported on the Statements of Net Position under the full accrual basis of accounting. This item, the difference in expected and actual pension experience, is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

### **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.

Fund balance of the Road and Bridge Fund is restricted for use on road and bridge construction within the County. The restrictions placed on fund balance for the General Fund as of September 30, 2017, are as follows:

Foster Care	\$ 169,329
Adult Probation	355,037
Voter Registration	5,231
South East Texas Auto Theft Task Force	62,209
Law Library	357,929
District Attorney Drug Forfeiture	218,563
Hot Check Collection	7,537
DWI Audio	71,058
Contributions	13,550
District Clerk Records Management	480,370
Child Support Title 4-D	160,799
District Attorney Federal Drug Forfeiture	36,986
Juvenile Probation	52,267
Constable #2 State Forfeiture	5,541
TCDP ORCA - 1	154,905
Law Enforcement Training	19,666
Mobile Volunteer Grant Program	12,667
Tax A-C VIT Interest	24,372
Bail Bonds	72,148
County State Drug Seizure	115,594
Child Welfare Jury	22,321
Drug Forfeiture: Precinct #2	6,428
CIAP Grant	15,075
County Clerk Records Management	1,136,522
Community Corrections	357,467
Constable Precinct #1 - Drug Seizure	22,994
Records Management	173,341
Indigent Defense	569,293
Courthouse Security	271,177
Probate Education	11,977
Gambling and Child Porn Forfeiture	86,869
Veterans Donations	864
Justice of the Peace Technology	71,783
Family Protection Fees	106,811
Hotel / Motel Tax	675,025
Forfeiture Proceeds	25,840
Constable #2 Treasury Forfeiture	2,693
CDBG Grant Projects	( 15,722)
Total Restricted Fund Balance - General Fund	\$ <u>5,936,516</u>



## **Net Position**

Net position represents the difference between assets, deferred outflows (inflows) of resources, 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. 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 July 31 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.

### 3. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

Deposits and investments are made in accordance with the provisions of the bank depository agreement or in any negotiable instrument the Commissioners' Court has authorized under the County's approved investment policy and the provisions of the Public Funds Investment Act of 1987, as amended.

Investments held at year-end are as follows:

	<u>Carrying Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 28,891	37
Texxs Class	<u>3,155,433</u>	53
Total investments	<u>\$ 3,184,324</u>	

The monies in government investment pools represent investments in TexPool and Texas Class, investment pools for state and local governments in Texas. The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

The Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "Act"), provide for the creation of public funds investment pools, such as Texas Class and TexPool, through which political subdivisions and other entities may invest public funds.

TexPool and Texas Class have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

Both TexPool and Texas Class are rated AAAM by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investments are with TexPool and Texas Class with maturities of less than one year.

### **Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All investment pools' policies require a rating of AA or better from a nationally recognized rating agency.

### **Concentration of Credit Risk**

The County's investments are issued or explicitly guaranteed by external investment pools, which are not considered to provide a concentration of credit risk.

### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local government entities by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least the bank balances less FDIC insurance at all times. The County's cash deposits in the bank on September 30, 2017, were covered by federal depository insurance or by collateral held by the County's agent in the County's name.

**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	\$ 787,136	\$ -	\$ -	\$ 787,136
Property taxes	5,178,074	340,405	251,822	5,770,301
Adjudicated fines	11,562,693	-	-	11,562,693
Other	560	-	-	560
Due from other governments	<u>849,301</u>	<u>-</u>	<u>-</u>	<u>849,301</u>
Gross receivables	<u>18,377,764</u>	<u>340,405</u>	<u>251,822</u>	<u>18,969,991</u>
Less: allowance for uncollectibles	<u>( 12,736,278)</u>	<u>( 106,061)</u>	<u>( 111,010)</u>	<u>( 12,953,349)</u>
		-		
Net total receivables	<u>\$ 5,641,486</u>	<u>\$ 234,344</u>	<u>\$ 140,812</u>	<u>\$ 6,016,642</u>

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue reported in the governmental funds were as follows:

	<u>General Fund</u>	<u>Total</u>
Unearned revenue:		
Grant revenue	<u>\$ 1,279,013</u>	<u>\$ 1,279,013</u>
Total unearned revenue	<u>\$ 1,279,013</u>	<u>\$ 1,279,013</u>

### C. Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 1,725,273	\$ -	\$ -	\$ 1,725,273
Construction in progress	1,355,750	3,538,032	-	4,893,782
Total capital assets not being depreciated	<u>3,081,023</u>	<u>3,538,032</u>	<u>-</u>	<u>6,619,055</u>
Capital assets, being depreciated:				
Buildings and improvements	33,428,389	2,620	-	33,431,009
Furniture, fixtures and equipment	14,626,112	2,057,565	( 833,327)	15,850,350
Software	928,420	-	-	928,420
Infrastructure	27,286,354	-	-	27,286,354
Total capital assets being depreciated	<u>76,269,275</u>	<u>2,060,185</u>	<u>( 833,327)</u>	<u>77,496,133</u>
Less accumulated depreciation:				
Buildings	11,532,546	850,524	-	12,383,070
Furniture, fixtures and equipment	11,307,225	899,548	( 808,659)	11,398,114
Software	162,473	92,842	-	255,315
Infrastructure	15,877,697	770,182	-	16,647,879
Total accumulated depreciation	<u>38,879,941</u>	<u>2,613,096</u>	<u>( 808,659)</u>	<u>40,684,378</u>
Total capital assets, being depreciated, net	<u>37,389,334</u>	<u>( 552,911)</u>	<u>( 24,668)</u>	<u>36,811,755</u>
Governmental activities capital assets, net	<u>\$ 40,470,357</u>	<u>\$ 2,985,121</u>	<u>\$ ( 24,668)</u>	<u>\$ 43,430,810</u>

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

Governmental activities:	
General administration	\$ 261,310
Public works	1,332,679
Legal	235,179
Social services	78,393
Public safety	<u>705,535</u>
Total depreciation expense - governmental activities	<u>\$ 2,613,096</u>

### D. Interfund Receivables, Payables and Transfers

The composition of interfund balances (due to/from other funds) as of September 30, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	\$ 179,506
Road and bridge	General	<u>1,142,510</u>
Total		<u>\$ 1,322,016</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. Defined Benefit Pension Plan**

**Plan Description.** The County participates in 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 nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tcdrs.org*.

All eligible employees of the County are required to participate in TCDRS.

**Benefits Provided.** TCDRS provides retirement, disability and death benefits for all of its fulltime employees. Benefit provisions are adopted by the governing body of the County, within the options available in the state statutes governing TCDRS.

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 eight 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. By law, employee accounts earn 7% interest. 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.

***Employees covered by benefit terms***

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

Inactive employees or beneficiaries currently receiving benefits	339
Inactive employees entitled to but not yet receiving benefits	148
Active employees	402
	889
	889

**Contributions.** The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings, as adopted by the employer’s governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer’s plan. Under the state law governing TCDRS, the contribution rate for each entity is determined annually by the actuary and approved by the TCDRS Board of Trustees. The replacement life entry age actuarial cost method is used in determining the contribution rate. The actuarially determined rate is the estimated amount necessary to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin, with an additional amount to finance any unfunded accrued liability.

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the County were 14.50% and 14.76% in calendar years 2016 and 2017, respectively. The County’s contributions to TCDRS for the year ended September 30, 2017, were \$2,977,230, and were equal to the required contributions.

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

*Actuarial Assumptions*

The Total Pension Liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	2.5% per year
Investment rate of return	8.0%, net of investment expenses, including inflation

The County has no automatic cost-of-living adjustments (“COLA”) and one is not considered to be substantively automatic. Therefore, no assumption for future cost-of-living adjustments is included in the actuarial valuation. Each year, the County may elect an ad-hoc COLA for its retirees.

Mortality rates for active members, retirees, and beneficiaries were based on the following:

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

The actuarial assumptions that determined the total pension liability as of December 31, 2016, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 8.10%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2017 information for a 7 to 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

<b>Asset Class</b>	<b>Benchmark</b>	<b>Target Allocation <sup>(1)</sup></b>	<b>Geometric Real Rate of Return (Expected minus Inflation) <sup>(2)</sup></b>
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities - Developed Markets	MSCI World Ex USA (net)	10.00%	4.70%
International Equities - Emerging Markets	MSCI EM Standard (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays Capital U.S. Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

<sup>(1)</sup> Target asset allocation adopted at the April 2017 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0%, per Cliffwater's 2017 capital

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.



***Discount Rate***

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

***Changes in the Net Pension Liability***

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 118,449,255	\$ 102,147,643	\$ 16,301,612
Changes for the year:			
Service cost	2,933,345	-	2,933,345
Interest on total pension liability <sup>(1)</sup>	9,464,871	-	9,464,871
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	25,268	-	25,268
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	( 118,550)	( 118,550)	-
Benefit payments	( 6,076,287)	( 6,076,287)	-
Administrative expenses	-	( 82,106)	82,106
Member contributions	-	1,409,535	( 1,409,535)
Net investment income	-	7,557,125	( 7,557,125)
Employer contributions	-	2,919,744	( 2,919,744)
Other <sup>(2)</sup>	-	86,956	( 86,956)
Balance at 12/31/2016	<u>\$ 124,677,902</u>	<u>\$ 107,844,060</u>	<u>\$ 16,833,842</u>

<sup>(1)</sup> Reflects the change in the liability due to the time value of money. TCDRS does not charge fees

<sup>(2)</sup> Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1,

<sup>(3)</sup> Relates to allocation of system-wide items.

***Sensitivity Analysis***

The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-higher (9.1%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	7.1%	8.1%	9.1%
Total pension liability	\$ 139,570,040	\$ 124,677,902	\$ 112,164,831
Fiduciary net position	<u>107,844,060</u>	<u>107,844,060</u>	<u>107,844,060</u>
Net pension liability/(asset)	<u>\$ 31,725,980</u>	<u>\$ 16,833,842</u>	<u>\$ 4,320,771</u>

### ***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. The report may be obtained on the Internet at [www.tcdrs.org](http://www.tcdrs.org).

### **Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2017, the County recognized pension expense of \$4,834,902.

At September 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ 731,118	\$ 18,951
Changes in actuarial assumptions	-	596,495
Net difference between projected and actual investment earnings	-	6,207,604
Contributions made subsequent to the measurement date	<u>-</u>	<u>2,283,313</u>
Total	<u>\$ 731,118</u>	<u>\$ 9,106,363</u>

\$2,283,313 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year Ended September 30th</u>	
2016	\$ 2,051,137
2017	2,051,137
2018	1,861,069
2019	128,589
Thereafter	-

### **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, 226 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)	\$	5,661,112
Interest on Net OPEB Obligation		670,345
Adjustment to the ARC	(	<u>894,616)</u>
Annual OPEB Cost		5,436,841
Contributions Made	(	<u>2,055,066)</u>
Increase (decrease) in net OPEB obligation		3,381,775
Net OPEB obligation/(asset), beginning		<u>14,896,564</u>
Net OPEB obligation (asset), ending	\$	<u><u>18,278,339</u></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
9/30/2015	\$ 4,229,993	\$ 1,417,098	33.50%	\$ 12,189,795
9/30/2016	4,187,636	1,480,748	35.36%	14,896,564
9/30/2017	5,436,841	2,055,066	37.80%	18,278,339

## Funding Status and Funding Progress

As of September 30, 2017, the actuarial accrued liability for benefits was \$64,149,563 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$18,073,368 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 354.94%.

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, 2017, 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, 2017, was 30 years. Inflation rates were assumed to be 3%.

**G. Long-Term Debt**

On October 1, 2016 the County issued \$5,375,000 Public Property Finance Contractual Obligations, Series 2016. The bonds were issued to fund the acquisition and installation of energy saving repairs and equipment for County buildings. The interest rate on the bonds is 2.00%-2.50% and is due on March 1<sup>st</sup> and September 1<sup>st</sup>. The bonds mature on March 1, 2031.

The requirements to amortize all bonds outstanding, as of September 30, 2017, are summarized as follows:

<u>Year Ending September 30,</u>	<u>Contractual Obligation</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 245,000	\$ 108,413	\$ 353,413
2019	260,000	103,363	363,363
2020	275,000	98,013	373,013
2021	295,000	92,313	387,313
2022	310,000	86,263	396,263
2023-2027	1,850,000	326,802	2,176,802
2028-2032	<u>1,895,000</u>	<u>95,795</u>	<u>1,990,795</u>
Totals	<u>\$ 5,130,000</u>	<u>\$ 910,962</u>	<u>\$ 6,040,962</u>

The following is a summary of general long-term debt activity of Orange County, Texas for the year ended September 30, 2017:

	Balance 9/30/2016	Additions	Deletions	Balance 9/30/2017	Due Within One Year
Bonds payable	\$ -	\$ 5,375,000	\$ 245,000	\$ 5,130,000	\$ 245,000
Premiums	-	188,911	12,594	176,317	12,594
Compensated absences	2,814,517	1,357,349	1,789,585	2,382,281	595,570
Net pension liability	16,301,611	3,451,971	2,919,740	16,833,842	-
OPEB liability	<u>14,896,564</u>	<u>5,436,841</u>	<u>2,055,066</u>	<u>18,278,339</u>	<u>-</u>
Total	<u>\$ 34,012,692</u>	<u>\$ 15,810,072</u>	<u>\$ 7,021,985</u>	<u>\$ 42,800,779</u>	<u>\$ 853,164</u>

## **H. Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County purchases workers' compensation insurance coverage from the Texas Association of Counties Self-insurance Fund, a public entity risk pool, which is self-sustaining through member premiums. The Fund reinsures through commercial companies for claims in excess of \$300,000.

The County maintains commercial insurance coverage covering other risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. There have been no significant reductions in insurance coverage from the prior year.

## **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, 2017, 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 Event**

In August of 2017, Hurricane Harvey struck the County, inflicting millions of dollars of damage to the area. As of June, 2018, the County has incurred expenses over \$12,000,000 related to recovery costs related to this disaster. The County does expect to be reimbursed for the majority of these expenses by the Federal Emergency Management Agency (FEMA) and the State of Texas, but the final total and timing of these funds are at this time unknown.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**ORANGE COUNTY, TEXAS**

**SCHEDULE OF FUNDING PROGRESS  
POST EMPLOYMENT HEALTH CARE BENEFIT PLAN**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Funded Ratio (a/b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
10/1/2012	\$ -	\$ 39,085,746	0.0%	\$ 39,085,746	\$ 19,470,423	200.7%
10/1/2014	-	42,607,352	0.0%	42,607,352	19,781,283	215.4%
10/1/2016	-	64,149,563	0.0%	64,149,563	18,073,368	354.9%

# ORANGE COUNTY, TEXAS

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

### FOR THE LAST THREE FISCAL YEARS

<b>Plan Year Ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Total Pension Liability</b>			
Service Cost	\$ 2,954,608	\$ 2,866,461	\$ 2,933,345
Interest total pension liability	8,571,838	9,038,075	9,464,871
Effect of plan changes	-	( 420,920)	-
Effect of assumption changes or inputs	-	1,192,989	-
Effect of economic/demographic (gains) or losses	( 586,980)	( 992,652)	25,268
Benefit payments/refunds of contributions	( 5,105,689)	( 5,948,242)	( 6,194,837)
Net change in total pension liability	5,833,777	5,735,711	6,228,647
Total pension liability - beginning	<u>106,879,767</u>	<u>112,713,544</u>	<u>118,449,255</u>
Total pension liability - ending (a)	<u>112,713,544</u>	<u>118,449,255</u>	<u>124,677,902</u>
<b>Plan Fiduciary Net Position</b>			
Employer contributions	2,778,675	2,853,719	2,919,744
Member contributions	1,405,400	1,400,843	1,409,535
Investment income net of investment expenses	6,698,765	( 208,052)	7,557,125
Benefit payments/ refunds of contributions	( 5,105,689)	( 5,948,242)	( 6,194,837)
Administrative expenses	( 77,763)	( 74,039)	( 82,106)
Other	( 116,283)	364,968	86,956
Net change in plan fiduciary net position	5,583,105	( 1,610,803)	5,696,417
Plan fiduciary net position - beginning	<u>98,175,341</u>	<u>103,758,446</u>	<u>102,147,643</u>
Plan fiduciary net position - ending (b)	<u>\$ 103,758,446</u>	<u>\$ 102,147,643</u>	<u>\$ 107,844,060</u>
Net pension liability - ending (a) - (b)	<u>\$ 8,955,098</u>	<u>\$ 16,301,612</u>	<u>\$ 16,833,842</u>
Fiduciary net position as a percentage of total pension liability	92.05%	86.24%	86.50%
Pensionable covered payroll	\$ 20,077,146	\$ 20,012,048	\$ 20,136,210
Net pension liability as a percentage of covered payroll	44.60%	81.46%	83.60%

Note - GASB Statement No. 68 requires ten years of data to be included in this schedule. Additional years will be presented in the future as data becomes available.

**ORANGE COUNTY, TEXAS**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**FOR THE LAST THREE FISCAL YEARS**

<b>Fiscal Year Ended September 30,</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Pensionable Covered Payroll</b>	<b>Actual Contribution as a % of Covered Payroll</b>
2015	\$ 2,837,715	\$ 2,837,715	\$ -	\$ 20,063,442	14.1%
2016	3,010,651	3,010,651	-	20,854,205	14.4%
2017	2,977,230	2,977,230	-	20,255,233	14.7%

Note - GASB Statement No. 68 requires ten years of data to be included in this schedule. Additional years will be presented in the future as data becomes available.

## ORANGE COUNTY, TEXAS

### NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

<b>Valuation Timing</b>	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
<b>Actuarial Cost Method</b>	Entry Age
<b>Amortization Method</b>	Level percentage of payroll, closed
<b>Remaining Amortization Period</b>	13.2 years (based on the contribution rate calculated in the 12/31/2016 valuation)
<b>Asset Valuation Method</b>	5-year smoothed market
<b>Inflation</b>	3.0%
<b>Salary Increases</b>	Varies by age and service. 4.9% average over career including inflation.
<b>Investment Rate of Return</b>	8.0%, net of investment expenses, including inflation
<b>Retirement Age</b>	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
<b>Mortality</b>	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously, Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
<b>Changes in Plan Provisions Reflected in the Schedule*</b>	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

\*Only changes effective 2016 and later are shown in the Notes to the Schedule.

**COMBINING 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*

*Capital Projects Funds* are used to account for the acquisition and construction of the County's major capital facilities.

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

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**ORANGE COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2017**

	Mosquito Control	Economic Development Corporation	Orange County Expo Center	Capital Projects	Debt Service	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments	\$ 363,291	\$ -	\$ -	\$ 662,845	\$ -	\$ 1,026,136
Property taxes receivable, net	<u>91,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,735</u>	<u>140,812</u>
Total assets	<u>454,368</u>	<u>-</u>	<u>-</u>	<u>662,845</u>	<u>49,735</u>	<u>1,166,948</u>
<b>LIABILITIES</b>						
Accounts payable	2,556	-	10,776	-	-	13,332
Accrued liabilities	14,086	2,604	2,316	-	-	19,006
Due to other funds	<u>-</u>	<u>18,541</u>	<u>117,156</u>	<u>-</u>	<u>43,809</u>	<u>179,506</u>
Total liabilities	<u>16,642</u>	<u>21,145</u>	<u>130,248</u>	<u>-</u>	<u>43,809</u>	<u>211,844</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue	<u>83,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,729</u>	<u>131,849</u>
Total deferred inflows of resources	<u>83,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,729</u>	<u>131,849</u>
<b>FUND BALANCES</b>						
Restricted	354,606	-	-	662,845	-	1,017,451
Unassigned	<u>-</u>	<u>( 21,145)</u>	<u>( 130,248)</u>	<u>-</u>	<u>( 42,803)</u>	<u>( 194,196)</u>
Total fund balances	<u>354,606</u>	<u>( 21,145)</u>	<u>( 130,248)</u>	<u>662,845</u>	<u>( 42,803)</u>	<u>823,255</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 454,368</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 662,845</u>	<u>\$ 49,735</u>	<u>\$ 1,166,948</u>

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**ORANGE COUNTY, TEXAS**

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

**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Mosquito Control	Economic Development Corporation	Orange County Expo Center	Capital Projects	Debt Service	Total Other Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 1,183,054	\$ -	\$ -	\$ -	\$ 346,677	\$ 1,529,731
Interest	1,953	-	-	2,567	9	4,529
Miscellaneous taxes	-	-	143,259	-	-	143,259
Other governmental support	-	126,681	-	-	-	126,681
Other	-	-	47,394	125,000	-	172,394
Total revenues	<u>1,185,007</u>	<u>126,681</u>	<u>190,653</u>	<u>127,567</u>	<u>346,686</u>	<u>1,976,594</u>
<b>EXPENDITURES</b>						
Current:						
General government	-	123,092	211,920	-	-	335,012
Social services	877,565	-	-	-	-	877,565
Capital outlay	2,692	-	32,559	3,538,032	-	3,573,283
Debt service:						
Principal	-	-	-	-	245,000	245,000
Interest and other charges	-	-	-	134,851	100,450	235,301
Total expenditures	<u>880,257</u>	<u>123,092</u>	<u>244,479</u>	<u>3,672,883</u>	<u>345,450</u>	<u>5,266,161</u>
<b>EXCESS REVENUES OVER EXPENDITURES</b>	<u>304,750</u>	<u>3,589</u>	<u>( 53,826)</u>	<u>( 3,545,316)</u>	<u>1,236</u>	<u>( 3,289,567)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of debt	-	-	-	5,375,000	-	5,375,000
Premium	-	-	-	188,911	-	188,911
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,563,911</u>	<u>-</u>	<u>5,563,911</u>
<b>NET CHANGE IN FUND BALANCES</b>	304,750	3,589	( 53,826)	2,018,595	1,236	2,274,344
<b>FUND BALANCES, BEGINNING</b>	<u>49,856</u>	<u>( 24,734)</u>	<u>( 76,422)</u>	<u>( 1,355,750)</u>	<u>( 44,039)</u>	<u>( 1,451,089)</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 354,606</u>	<u>\$ ( 21,145)</u>	<u>\$ ( 130,248)</u>	<u>\$ 662,845</u>	<u>\$ ( 42,803)</u>	<u>\$ 823,255</u>

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## **FIDUCIARY FUNDS**

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

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

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

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

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

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

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

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

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**ORANGE COUNTY, TEXAS**

**FIDUCIARY FUND TYPE**

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**

**SEPTEMBER 30, 2017**

	<u>County Attorney</u>	<u>Justices of the Peace</u>	<u>County Clerk</u>	<u>District Clerk</u>	<u>Tax Assessor</u>	<u>Child Support</u>	<u>Orange Co. Juvenile Probation</u>	<u>Orange Co. Adult Probation</u>	<u>Sheriff</u>	<u>Total</u>
<b>ASSETS</b>										
Cash	\$ <u>1,166</u>	\$ <u>32,032</u>	\$ <u>751,069</u>	\$ <u>279,438</u>	\$ <u>1,623,843</u>	\$ <u>250</u>	\$ <u>32,604</u>	\$ <u>108,801</u>	\$ <u>159,939</u>	\$ <u>2,989,142</u>
Total assets	\$ <u>1,166</u>	\$ <u>32,032</u>	\$ <u>751,069</u>	\$ <u>279,438</u>	\$ <u>1,623,843</u>	\$ <u>250</u>	\$ <u>32,604</u>	\$ <u>108,801</u>	\$ <u>159,939</u>	\$ <u>2,989,142</u>
<b>LIABILITIES</b>										
Due to others	\$ <u>1,166</u>	\$ <u>32,032</u>	\$ <u>751,069</u>	\$ <u>279,438</u>	\$ <u>1,623,843</u>	\$ <u>250</u>	\$ <u>32,604</u>	\$ <u>108,801</u>	\$ <u>159,939</u>	\$ <u>2,989,142</u>
Total liabilities	\$ <u>1,166</u>	\$ <u>32,032</u>	\$ <u>751,069</u>	\$ <u>279,438</u>	\$ <u>1,623,843</u>	\$ <u>250</u>	\$ <u>32,604</u>	\$ <u>108,801</u>	\$ <u>159,939</u>	\$ <u>2,989,142</u>

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# **COMPLIANCE SECTION**

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PATTILLO, BROWN & HILL, 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 Judge and  
County Commissioners  
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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 2, 2018.

***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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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.

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

Waco, Texas  
July 2, 2018



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 COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Orange County's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2017. The County's 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Orange County 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, 2017.

**Report on Internal Control over Compliance**

Management of Orange County 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's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 the Uniform Guidance, 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's 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 were not 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas  
July 2, 2018

# ORANGE COUNTY, TEXAS

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor Agency/ Pass-through Agency	CFDA Number	Pass-through Grantor's Number	Disbursements/ Expenditures	Pass-Through Expenditures
<u>U. S. Department of Housing and Urban Development</u>				
Passed through Texas General Land Office:				
Community Development Block Grant	14.228	13-139-000-7217	\$ 365,522	\$ -
Total Passed through Texas General Land Office			<u>365,522</u>	<u>-</u>
Passed through Texas Department of Agriculture:				
Community Development Block Grant	14.228	7214339	33,578	-
Community Development Block Grant	14.228	7215350	<u>147,096</u>	<u>-</u>
Total Passed through Texas Department of Agriculture			<u>180,674</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>546,196</u>	<u>-</u>
<u>U. S. Department of Justice</u>				
Direct program				
Federal Equitable Sharing Program	16.922	TX1810000	<u>389,888</u>	<u>-</u>
Total Direct programs			<u>389,888</u>	<u>-</u>
Total U. S. Department of Justice			<u>389,888</u>	<u>-</u>
<u>U. S. Department of Transportation</u>				
Passed through Southeast Texas Regional Planning Commission:				
Transportation Services - Section 5311	20.509	51218012017	135,980	-
Transportation Services - Section 5311	20.509	51018012017	<u>21,318</u>	<u>-</u>
Total Passed through Southeast Texas Regional Planning Commission			<u>157,298</u>	<u>-</u>
Total U. S. Department of Transportation			<u>157,298</u>	<u>-</u>
<u>U. S. Department of the Treasury</u>				
Direct program				
Federal Equitable Sharing Program	21.000	TX1810000	<u>70,759</u>	<u>-</u>
Total Direct programs			<u>70,759</u>	<u>-</u>
Total U. S. Department of the Treasury			<u>70,759</u>	<u>-</u>

**ORANGE COUNTY, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Federal Grantor Agency/ Pass-through Agency	CFDA Number	Grantor's Number	Disbursements/ Expenditures	Pass-Through Expenditures
<u>U. S. Department of Health and Human Services</u>				
Passed through Texas Department of State Health Services:				
Foster Care Maintenance - Title IV-E	93.658	23939004	\$ 4,818	\$ -
Total Passed through Texas Department of State Health Services			<u>4,818</u>	<u>-</u>
Total U. S. Department of Health and Human Services			<u>4,818</u>	<u>-</u>
<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	1715TX-EMPG-0410	32,437	-
State Homeland Security (SHSP)	97.067	29598-01	8,704	-
State Homeland Security (SHSP)	97.067	29598-02	5,579	-
State Homeland Security (SHSP/LETPA)	97.067	29597-02	<u>14,537</u>	<u>-</u>
Total Passed through Texas Department of Public Safety Division of Emergency Management			<u>61,257</u>	<u>-</u>
Passed through Jefferson County:				
Port Security Grant Program	97.056	EMW2015PUAPP00086	<u>853,425</u>	<u>-</u>
Total Passed through Jefferson County			<u>853,425</u>	<u>-</u>
Total U. S. Department of Homeland Security			<u>914,682</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,083,641</u>	<u>\$ -</u>



# ORANGE COUNTY, TEXAS

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2017

### 1. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards (the “Schedule”) is prepared on the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### 2. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal awards programs of the County. The County’s reporting entity is defined in Note I of the basic financial statements. Federal awards received directly from federal agencies, as well as awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

### 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.

### 4. INDIRECT COSTS

The County has elected not to use the 10% de minimis indirect cost rate allowed in the Uniform Guidance.

# ORANGE COUNTY, TEXAS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2017

### Summary of Auditors' Results

#### Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	None
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

Any audit findings disclosed that are required  
to be reported in accordance with 2 CFR 200.516 (a) of  
Uniform Guidance

None

#### Identification of major programs:

CFDA Number(s) 97.056	Name of Federal Program or Cluster: Port Security Grant Program
--------------------------	--

Dollar threshold used to distinguish between type A and type B programs	\$750,000
--	-----------

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

### Findings and Questioned Costs for Federal Awards

None

**ORANGE COUNTY, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

None.



***Pennee Schmitt, C.P.A.***  
Orange County Auditor

Corrective Action Plan for Fiscal Year 2016 Audit Findings

June 30, 2017

**FINDING 2016-001**

Condition:	There were instances where both revenues and expenditures were recorded within the same account line item.
Criteria:	All revenues and expenditures, regardless of budget policy, should be recorded in the appropriate line items. In no instance should revenues and expenditures be recorded together. A review should be made periodically to ensure that all items are appropriately categorized.
Cause:	Policies were not in place to ensure that revenues and expenditures would not be netted together in every instance.
Effect:	Revenues and expenditures will be misstated.
Recommendation:	All revenues and expenditures, regardless of budget policy, should be recorded in the appropriate line items. In no instance should revenues and expenditures be recorded together. A review should be made periodically to ensure that all items are appropriately categorized.

**PERSON RESPONSIBLE FOR CORRECTIVE ACTION:** Pennee Schmitt, County Auditor

**CORRECTIVE ACTION PLANNED:** The County acknowledges that this practice has occurred in the past and will review both revenue and expenditure accounts to ensure that they are used properly. All pass-through expenditures will be separated to properly record both the revenue and expenditure aspects of all transactions. A quarterly review of account line items will be made to ensure that they are continuously working properly.

**ANTICIPATED COMPLETION DATE:** June 30, 2017

**FINDING 2016-002**

Condition: The portion of fines and fees due to the State were not being recorded properly in prior periods, as well as in the current year.

Criteria: The County should adopt a policy that requires balances due to the State be recorded in liability accounts, rather than using revenue and expenditure accounts.

Cause: The County's policies and procedures did not adequately address the need to properly record liability balances due to the State for their share of fines and forfeitures.

Effect: Revenues were overstated and liabilities understated in prior periods, resulting in a restatement of beginning net position in the government-wide financial statements.

Recommendation: The County should adopt a policy that requires balances due to the State be recorded in liability accounts, rather than using revenue and expenditure accounts.

**PERSON RESPONSIBLE FOR CORRECTIVE ACTION:** Pennee Schmitt, County Auditor

**CORRECTIVE ACTION PLANNED:** The County acknowledges that this practice has taken place in the past and will alter their policies to address this matter. Liability accounts will be used to account for balances due to the State, rather than netting them against gross revenues.

**ANTICIPATED COMPLETION DATE:** June 30, 2017



Pennee Schmitt, County Auditor

June 30, 2017

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