

Orange County, Texas

Annual Financial Report

For the Year Ended September 30, 2020

Orange County, Texas
Annual Financial Report
For the Year Ended September 30, 2020
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Financial Section

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Independent Auditor's Report

To the Honorable Judge and
Commissioners' Court of Orange County,
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 (the County), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The County's 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.

Auditor's 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 the County, as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Honorable Judge and Members of the
Commissioners' Court of Orange County

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, 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.

Supplementary 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 Supplementary Information, as listed in the table of contents, is presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information and Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates 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 Supplementary Information and Schedule of Expenditures of Federal Awards is 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 May 26, 2021 on our consideration of the County's 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 the County's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas

May 26, 2021

Management's Discussion and Analysis

As management of Orange County (the County), we offer readers of the County's financial statements this overview and analysis of the financial activities of the County for the year ended September 30, 2020. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

Some of the County's financial highlights for the fiscal year ended September 30, 2020 include:

- The County's total net position decreased during the year by \$12,572,452 due to current operations.
- The County's unrestricted net position is a deficit of \$83,287,745.
- The County's governmental funds total fund balances were \$8,046,835.

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and 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. They present the financial picture of the County from an economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the County, including infrastructure, as well as all liabilities, including long-term debt. Additionally, certain eliminations have occurred in regards to interfund activity, payables and receivables.

The statement of net position presents information of all of the County's assets and deferred outflows of resources, deferred inflows of resources and liabilities, with the difference between them reported as net position (deficit). Increases or decreases in net position contrasted with budgetary decisions should serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent year using full accrual basis of accounting. 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 result in cash flows in future periods (e.g., uncollected taxes, earned but unused vacation, and receivables).

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues, governmental activities, from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the County include general government, legal, public works, social services, public safety, and interest and fees on debt.

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 of the funds of the County can be divided into two categories: governmental funds and 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus on 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.

The County maintains seven individual governmental funds, excluding fiduciary funds, of which four are special revenue funds, capitals project fund, debt service fund, and the general fund. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, and the road and bridge fund, which are classified as major funds. Data from the other non-major 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. The governmental fund financial statements can be found in the table of contents of this report.

The County adopts an annual appropriated budget for its general fund and road and bridge fund. Budgetary comparison statements, which are considered required supplementary information, have been provided for these funds to demonstrate compliance with these budgets as noted in the table of contents.

Fiduciary Funds. Fiduciary funds are used to account for resources held by the County in a trustee capacity or as an agent for other governmental units. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's basic programs. The basic fiduciary fund financial statements can be found in the table of contents of this report.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report presents required supplementary information and supplementary information, as noted in the table of contents of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as useful indicators of the County's financial position. In the case of the County, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$41,276,448 at the close of the current year.

Orange County, Texas's Net Position

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 26,377,429	40	\$ 23,742,624	37	\$ 2,634,805	11
Capital assets, net	39,787,025	60	40,677,386	63	(890,361)	-2
Total assets	66,164,454	100	64,420,010	100	1,744,444	
Total deferred outflows of resources	17,633,214	100	9,991,128	100	7,642,086	76
Other liabilities	12,649,107	11	3,913,525	4	8,735,582	223
Long-term liabilities outstanding	104,245,653	89	97,661,418	96	6,584,235	7
Total liabilities	116,894,760	100	101,574,943	100	15,319,817	
Total deferred inflows of resources	8,179,356	100	1,540,191	100	6,639,165	431
Net position:						
Net investment in capital assets	35,365,480	(86)	35,903,629	(125)	(538,149)	-1
Restricted	6,645,817	(16)	6,998,358	(24)	(352,541)	-5
Unrestricted (deficit)	(83,287,745)	202	(71,605,983)	249	(11,681,762)	16
Total net position (deficit)	\$ (41,276,448)	100	\$ (28,703,996)	100	\$ (12,572,452)	

The County's total assets of \$66,164,454 are largely comprised of capital assets, net of accumulated depreciation of \$39,787,025, or 60%. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements. Capital assets are non-liquid assets and cannot be utilized to satisfy County obligations.

Long-term liabilities of \$104,245,653 comprise the largest portion of the County's total liabilities of \$116,894,760 at 89%. Of total long-term liabilities, \$1,875,000 are due within one year, with the remainder \$102,370,653 being due over a period of time greater than one year. A more in-depth discussion of long-term debt can be found in the notes to financial statements.

Approximately (86)% of total net position or \$35,365,480 represents net investment in capital assets and approximately (16)% of total net position or \$6,645,817 represents resources that are subject to restrictions on how they are to be used. The amount of \$(83,287,745) 202% of unrestricted net position (deficit) is the result of implementing GASB 75 which is a pay-as-you go plan.

Changes in Net Position

The County's net position decreased by \$12,572,452 from current year activity. The elements giving rise to this change may be determined from the table below.

Orange County, Texas's Changes in Net Position

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues:						
Program revenues:						
Charges for services	\$ 5,545,084	11	\$ 4,537,965	9	\$ 1,007,119	22
Operating grants and contributions	6,425,802	12	8,103,825	16	(1,678,023)	-21
Capital grants and contributions	-	-	60,422	-	(60,422)	-100
General revenues:						
Property taxes	31,651,962	62	29,538,452	59	2,113,510	7
Sales and use taxes	5,711,034	11	5,340,588	11	370,446	7
Other taxes	663,975	1	437,867	1	226,108	52
Investment earnings	154,246	-	328,690	1	(174,444)	-53
Miscellaneous	1,293,429	3	1,314,010	3	(20,581)	-2
Total revenues	51,445,532	100	49,661,819	100	1,783,713	
Expenses:						
General government	19,500,557	30	16,696,552	31	2,804,005	17
Legal	8,175,584	13	8,155,675	15	19,909	0
Public works	15,438,267	24	7,515,606	15	7,922,661	105
Social services	3,337,108	5	3,468,439	7	(131,331)	-4
Public safety	17,481,780	28	17,148,632	32	333,148	2
Interest and fees on debt	84,688	-	90,049	-	(5,361)	-6
Total expenses	64,017,984	100	53,074,953	100	10,943,031	
Change in net position	(12,572,452)		(3,413,134)		(9,159,318)	
Net position (deficit), beginning	(28,703,996)		(25,290,862)		(3,413,134)	
Net position, ending (deficit)	\$ (41,276,448)		\$ (28,703,996)		\$ (12,572,452)	

Governmental Activities. The County's total revenues were \$51,445,532 from all governmental activities. A significant portion, \$38,026,971 or 74%, of the County's revenue comes from taxes. Operating grants and contributions revenue accounts for \$6,425,802, or 12%, of total revenue for governmental activities. The increase in governmental activities revenues is attributed to the increase in property tax values.

The total cost of all governmental programs and services was \$64,017,984. The general government function accounted for \$19,500,557, or 30% of this total. The public safety function accounted for \$17,481,780, or 28% of total expenditures. The public works accounted for \$15,438,267, or 24% of total expenditures. The legal function accounted for \$8,175,584, or 13% of total expenditures. The increase in governmental activities expenses can be attributed to the county spending more than prior year due to COVID – 19 and weather related disasters.

Financial Analysis of the Governmental Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting and budget controls has been the framework of the County's fiscal management and accountability.

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

Governmental Funds. As of the end of the current year, the County's governmental funds reported combined ending fund balances of \$8,046,835, a decrease of \$8,200,339.

The general fund is the County's operating fund. At the end of the current fiscal year nonspendable fund balance was \$80,473. Restricted fund balance was \$6,131,675, assigned for subsequent year's budget fund balance of the general fund was \$1,495,044 and total fund balance was \$7,707,192. As a measure of the general fund's liquidity, it may be useful to compare assigned for subsequent year's budget and total fund balance to total fund expenditures. Assigned for subsequent year's budget fund balance represents 3% of total general fund expenditures. Total fund balance represents 15% of total general fund expenditures. The fund balance of the County's general fund decreased by \$6,794,325 during the current fiscal year from current operations. For the most part, the decrease in fund balance was the result of increased expenditures related to COVID – 19 and weather related disasters.

The road and bridge fund ending fund balance was \$126,783, all of which is restricted for the road and bridge activities. The road and bridge fund balance decreased \$1,134,017 during the year, primarily due to increases in capital improvements.

General Fund Budgetary Highlights

Differences between original budget, final amended budget and actual reviews and expenditures are briefly summarized as follows:

- Actual revenues for 2020 were \$7,514,161 less than the final amended budget due to timing of grant reimbursements and revenue recognition.
- Actual expenditures for 2020 were \$11,635,581 less than the final amended budget.
- Significant differences between original and final budget are due to amendments to revenues and expenditures for disaster recovery that were not all realized in the current year.

This resulted in a net increase in the general fund balance for the year of \$3,194,350 better than projected.

Capital Asset and Debt Administration

Capital Assets. The County's investment in capital assets as of September 30, 2020, for its governmental activities amounts to \$39,787,025 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture, fixtures and equipment, software and infrastructure.

Orange County, Texas's Capital Assets (net of depreciation)

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land	\$ 1,725,273	4	\$ 1,725,273	4	\$ -	0
Buildings and improvements	22,975,919	58	24,273,690	60	(1,297,771)	-5
Furniture, fixtures and equipment	6,134,522	15	5,092,893	13	1,041,629	20
Software	394,579	1	487,421	1	(92,842)	-19
Infrastructure	8,556,732	22	9,098,109	22	(541,377)	-6
Totals	\$ 39,787,025	100	\$ 40,677,386	100	\$ (890,361)	

Significant capital asset additions included the purchase of an excavator and several tractors for the year ended September 30, 2020. Additional information on the County's capital assets can be found in Note 3.D.

Long-term Liabilities Outstanding. At the end of the current year, the County had total long-term liabilities outstanding of \$104,245,653 for governmental activities. The County's long-term debt is comprised as follows:

Orange County, Texas's Long-term Liabilities Outstanding

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Contractual obligations	\$ 4,487,515	4	\$ 4,775,619	5	\$ (288,104)	-6
Compensated absences	1,857,564	2	2,094,461	2	(236,897)	-11
Net pension liability	8,317,563	8	19,133,601	20	(10,816,038)	-57
Total OPEB liability	89,583,011	86	71,657,737	73	17,925,274	25
Totals	\$ 104,245,653	100	\$ 97,661,418	100	\$ 6,584,235	

Additional information on the County's long-term liabilities can be found in Note 3.F.

Economic Factors and Next Year's Budgets and Rates

1. The total tax rate will be \$.5420 per \$100 valuation in fiscal year 2019-2020.
2. The unemployment rate for Orange County, according to Texas Workforce statistics, is 5.1%, a decrease of 0.2% from last year's rate of 5.3%. The state unemployment rate, as recorded by the Bureau of Labor Statistics is 3.4%.
3. The state sales tax receipts for the current fiscal year totaled \$5,711,034, an increase of \$370,446 or 7% from the previous year indicating a stable retail economy.
4. The extent of the operational and financial impact the COVID-19 pandemic may have on the County has yet to be determined and is dependent on its duration and spread, any related operation restrictions, and the overall economy.

All of these factors were considered in preparing the Orange County's budget for the 2020 fiscal year.

Requests 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 County Auditor's office, 123 South Sixth Street, Orange, Texas 77630.

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Financial Statements

Orange County, Texas
Statement of Net Position
September 30, 2020

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 12,457,123
Investments	6,650,725
Receivables, net:	
Property taxes	2,243,657
Sales tax	937,691
Adjudicated fines	315,766
Other receivables	446,425
Due from other governments	3,245,569
Prepaid Expenditures	80,473
Capital assets not being depreciated:	
Land	1,725,273
Capital assets, net of accumulated depreciation:	
Buildings and improvements	22,975,919
Furniture, fixtures and equipment	6,134,522
Software	394,579
Infrastructure	8,556,732
Total assets	<u>66,164,454</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	2,793,260
Deferred outflows related to OPEB	14,839,954
Total deferred outflows of resources	<u>17,633,214</u>
LIABILITIES	
Accounts payable	8,499,429
Accrued liabilities	932,414
Accrued interest	3,837
Due to other governments	259,639
Due to beneficiaries	519,498
Unearned revenue	2,434,290
Noncurrent liabilities (Note 3.E.):	
Due within one year	1,875,000
Due in more than one year	4,470,079
Net pension liability	8,317,563
Net OPEB liability	89,583,011
Total liabilities	<u>116,894,760</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	4,955,229
Deferred inflows related to OPEB	3,224,127
Total deferred inflows of resources	<u>8,179,356</u>
NET POSITION	
Net investment in capital assets	35,365,480
Restricted	6,645,817
Unrestricted (deficit)	(83,287,745)
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (41,276,448)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Orange County, Texas
Statement of Activities
For the Year Ended September 30, 2020

				Net (Expenses) Revenue and Changes in Net Position
		Program Revenues		
			Operating	
Function/Programs	Expenses	Charges for Services	Grants and Contributions	Governmental Activities
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 19,500,557	\$ 1,363,075	\$ 649,009	\$ (17,488,473)
Legal	8,175,584	767,941	1,231,836	(6,175,807)
Public works	15,438,267	2,421,143	3,739,805	(9,277,319)
Social services	3,337,108	-	64,651	(3,272,457)
Public safety	17,481,780	992,925	740,501	(15,748,354)
Interest and fees on debt	84,688	-	-	(84,688)
Total governmental activities	64,017,984	5,545,084	6,425,802	(52,047,098)
TOTAL PRIMARY GOVERNMENT	\$ 64,017,984	\$ 5,545,084	\$ 6,425,802	(52,047,098)
General revenues:				
Taxes:				
Property taxes				31,302,620
Property taxes - debt service				349,342
Sales and use taxes				5,711,034
Other taxes				663,975
Investment earnings				154,246
Miscellaneous				1,293,429
Total general revenues				39,474,646
Change in net position				(12,572,452)
Net position (deficit), beginning				(28,703,996)
NET POSITION (DEFICIT), ENDING				\$ (41,276,448)

The Notes to the Financial Statements are an integral part of this statement.

Orange County, Texas

Balance Sheet – Governmental Funds

September 30, 2020

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 12,149,361	\$ 52,208	\$ 255,554	\$ 12,457,123
Investments	6,650,725	-	-	6,650,725
Receivables (net):				
Property taxes	1,978,747	164,421	100,489	2,243,657
Sales tax	937,691	-	-	937,691
Adjudicated fines	315,766	-	-	315,766
Other receivables	19,245	395,444	31,736	446,425
Due from other governments	3,245,569	-	-	3,245,569
Prepaid expenditures	80,473	-	-	80,473
TOTAL ASSETS	\$ 25,377,577	\$ 612,073	\$ 387,779	\$ 26,377,429
LIABILITIES				
Accounts payable	\$ 8,218,424	\$ 234,994	\$ 46,011	\$ 8,499,429
Accrued liabilities	807,859	91,842	32,713	932,414
Due to other governments	259,639	-	-	259,639
Due to beneficiaries	519,498	-	-	519,498
Unearned revenue	2,434,290	-	-	2,434,290
Total liabilities	12,239,710	326,836	78,724	12,645,270
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	5,430,675	158,454	96,195	5,685,324
Total deferred inflows of resources	5,430,675	158,454	96,195	5,685,324
FUND BALANCES				
Nonspendable	80,473	-	-	80,473
Restricted	6,131,675	126,783	227,901	6,486,359
Assigned for subsequent year's budget	1,495,044	-	-	1,495,044
Unassigned (deficit)	-	-	(15,041)	(15,041)
Total fund balances	7,707,192	126,783	212,860	8,046,835
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 25,377,577	\$ 612,073	\$ 387,779	\$ 26,377,429

The Notes to the Financial Statements are an integral part of this statement.

Orange County, Texas

Reconciliation of the Balance Sheet – Governmental Funds – to the Statement of Net Position September 30, 2020

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 8,046,835
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 87,310,712	
Accumulated depreciation of governmental capital assets	<u>(47,523,687)</u>	39,787,025

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	\$ 2,142,928	
Grants	3,226,630	
Court fines and fees	<u>315,766</u>	5,685,324

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. Long-term liabilities at year-end consist of:

Contractual obligations payable	\$ (4,350,000)	
Premium on contractual obligations	(137,515)	
Accrued interest on contractual obligations	(3,837)	
Compensated absences	(1,857,564)	
Net pension liability	(8,317,563)	
Net OPEB liability	<u>(89,583,011)</u>	(104,249,490)

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then.	2,793,260
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Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.	(4,955,229)
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Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then.	14,839,954
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Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.	<u>(3,224,127)</u>
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TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	<u>\$ (41,276,448)</u>
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Orange County, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds For the Year Ended September 30, 2020

	General	Road and Bridge	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 28,698,920	\$ 1,868,790	\$ 1,363,309	\$ 31,931,019
Sales taxes	5,711,034	-	-	5,711,034
Miscellaneous taxes	193,657	-	129,184	322,841
Payments in lieu of taxes	340,958	-	-	340,958
Other governmental support	3,167,809	31,695	185,180	3,384,684
Fees of office	3,290,043	2,171,970	-	5,462,013
Forfeitures	666,031	-	-	666,031
Interest	153,928	-	318	154,246
Other	1,129,937	104,755	22,436	1,257,128
Total revenues	43,352,317	4,177,210	1,700,427	49,229,954
EXPENDITURES				
Current:				
General government	16,424,127	-	443,578	16,867,705
Legal	6,703,822	-	-	6,703,822
Public works	9,852,898	4,633,471	-	14,486,369
Social services	1,969,727	-	901,444	2,871,171
Public safety	14,114,441	-	-	14,114,441
Debt service:				
Principal	-	-	275,000	275,000
Interest and other charges	-	-	98,013	98,013
Capital outlay	1,081,627	1,121,457	12,422	2,215,506
Total expenditures	50,146,642	5,754,928	1,730,457	57,632,027
Excess (deficiency) of revenues over (under) expenditures	(6,794,325)	(1,577,718)	(30,030)	(8,402,073)
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	201,734	-	-	201,734
Transfers in/out	(903,804)	443,701	460,103	-
Total other financing sources (uses)	(702,070)	443,701	460,103	201,734
Net change in fund balance	(7,496,395)	(1,134,017)	430,073	(8,200,339)
Fund balance, beginning	15,203,587	1,260,800	(217,213)	16,247,174
FUND BALANCE, ENDING	<u>\$ 7,707,192</u>	<u>\$ 126,783</u>	<u>\$ 212,860</u>	<u>\$ 8,046,835</u>

The Notes to the Financial Statements are an integral part of this statement.

Orange County, Texas

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – to the Statement of Activities For the Year Ended September 30, 2020

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (8,200,339)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital outlay	\$ 2,215,506	
Depreciation expense	<u>(3,020,370)</u>	(804,864)

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is an increase (decrease) to net position. (85,497)

Because some property taxes, and court fines and fees and grants will not be collected for several months after the County's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred inflows increased (decreased) by the following amounts this year:

Deferred inflows - property taxes	\$ (279,057)	
Deferred inflows - court fines and fees	12,207	
Deferred inflows - grants	<u>2,366,191</u>	2,099,341

The repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 275,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The changes in interest reported in the statement of activities consists of the following:

Accrued interest on contractual obligations payable (increased) decreased	\$ 221	
Amortization of premium on contractual obligations	<u>13,104</u>	13,325

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. 236,897

The net change in net pension liability, deferred outflows and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ (7,197,868)	
Deferred inflows (increased) decreased	(3,415,038)	
Net pension liability (increased) decreased	<u>10,816,038</u>	203,132

The net change in net OPEB liability, deferred outflows and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ 14,839,954	
Deferred inflows (increased) decreased	(3,224,127)	
Net OPEB liability (increased) decreased	<u>(17,925,274)</u>	(6,309,447)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ (12,572,452)

The Notes to the Financial Statements are an integral part of this statement.

Orange County, Texas
 Statement of Assets and Liabilities
 Agency Funds
 September 30, 2020

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 37,139,549
Investments	105,200
Other receivables	29,914
	<hr/>
TOTAL ASSETS	\$ 37,274,663
	<hr/>
LIABILITIES	
Due to others	\$ 37,274,663
	<hr/>
TOTAL LIABILITIES	\$ 37,274,663
	<hr/>

The Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

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Orange County, Texas

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

The County of Orange, Texas (the County) 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 Commissioners' Court, consisting of four County Commissioners and the County Judge, as elected, is the policy making body of the County.

The financial statements of the County are prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for established governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

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 GAAP, 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 financial statements. 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 GAAP. 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 GAAP 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 for the financial reporting entity of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. The County has no business-type activities or any component units.

The government-wide statement of net position reports all financial and capital resources of the County and is presented in an "assets plus deferred outflows minus liabilities minus deferred inflows equal net position" format with net position reported in the order of relative liquidity. Also, assets and liabilities are presented in relative order of liquidity.

Orange County, Texas

Notes to the Financial Statements

The government-wide statement of activities identifies the relative financial burden of each of the County's functions (general government, legal, public works, social services, public safety and interest and fees on debt) on the taxpayers by identifying direct expenses and the extent of self-support through program revenues. Direct expenses are clearly identifiable expenses that can be specifically associated with a function. Program revenues are revenues derived directly from the function or from other sources which reduce the net cost of the function to be financed from general revenues. Program revenues are: 1) charges to customers who purchase, use, or directly benefit from services provided by a function and which are generated by that function, 2) grants and contributions restricted to operating requirements of a function and, 3) grants and contributions restricted to capital requirements of a function. Items such as taxes, investment earnings and miscellaneous revenue are not included as program revenues but are instead reported as general revenues.

Separate fund level financial statements are presented for governmental funds, with a focus on major funds, and fiduciary funds, which are excluded from the government-wide financial statements because they do not represent assets which can be used to support the County's programs. Major individual governmental funds are reported as separate columns in the fund financial statements, with nonmajor funds aggregated and displayed in a single column.

The focus of fiduciary funds is on assets and liabilities. These funds report assets held in an agency capacity by the County for the benefit of others and cannot be used to support County activities.

C. Measurement Focus and Basis of Accounting

The government-wide statements are prepared 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 a current financial resources measurement focus and 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 120 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred. However, expenditures related to general long-term debt, compensated absences, and claims and judgments are recorded only when payment is due.

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

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 County highways and lateral roads and bridges.

Orange County, Texas

Notes to the Financial Statements

Additionally, the County reports the following nonmajor governmental and fiduciary funds:

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 assets.

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 custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Cash and Cash Equivalents

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.

2. Investments

Investments for the County are reported at fair value, except for certain external investment pools. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or fair value.

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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 non-current portion of interfund loans). As of September 30, 2020, the County had no amounts considered "advances".

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities (i.e., the governmental funds) are eliminated.

The County's property taxes are levied annually on October 1 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 by January 31 of the subsequent calendar year, with an enforceable tax lien attaching to real property July 1 of the subsequent calendar year.

Property taxes are prorated between the general fund, road and bridge fund, mosquito control fund and debt service fund based on rates adopted for the year of the levy. All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Orange County, Texas

Notes to the Financial Statements

4. Inventories

Inventories are recorded as expenditures / expenses when purchased rather than when consumed.

5. Capital Assets

Capital assets, which includes land, construction in progress, buildings and improvements, furniture fixtures and equipment, software, and infrastructure (e.g. roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. All capital assets are valued at their historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value. Capital assets are defined by the County with an initial individual cost that equals or exceeds \$5,000 with a useful life greater than one year.

The reported value excludes normal repairs and maintenance, which are amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Class	Useful Life in Years
Buildings	7-50
Improvements	7-50
Furniture, fixtures and equipment	3-20
Software	10
Infrastructure	35-50

Land and construction in progress are not depreciated.

6. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments, which are amortized on a closed basis over a 5-year period.
- County contributions to the pension plan after the measurement date of the plan are recognized in the subsequent fiscal year.
- Property taxes are recognized in the period the amount becomes available.
- Adjudicated fines and fees are recognized in the period the amount becomes available.
- Grant funds are recognized in the period the amount becomes available.

7. 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.

Orange County, Texas

Notes to the Financial Statements

Vacation Leave

Unused vacation leave entitlement will be paid to employees upon termination of employment provided the employee has completed at least six months of continuous service, unless termination is the result of disciplinary action taken against the employee. Vacation leave is earned at 5 to 30 days per year, with a maximum accrual of 5 to 30 days, based on longevity.

Sick Leave

Unused sick leave entitlement will be paid to employees upon termination of employment provided the employee has completed at least two years of continuous service, unless termination is the result of disciplinary action taken against the employee. Sick leave accrues at 3.69 hours per pay period or 12 days per year, up to a maximum paid benefit for entitlement of 60 days, dependent upon hire date.

8. Long-term Liabilities

The County's long-term debt consists of contractual obligations, compensated absences, net pension liability and total OPEB liability. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Contractual obligations are reported net of the associated premium or discount at the government-wide level and are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

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

9. Pension

For purposes of measuring the net pension liability and related deferred outflows of resources, deferred inflows of resources, and pension expense, the County specific information about its Fiduciary Net Position in the Texas County and District Retirement System (TCDRS) and additions to/deductions from the County's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS using the flow of economic resources measurement focus and accrual basis of accounting. Plan contributions are recognized in the period that compensation is reported for the employee, which is when 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. Information regarding the County's Total Pension Liability and Fiduciary Net Position is obtained from TCERS through a report prepared for the County by TCERS's consulting actuary, in compliance with GASB 68.

10. Other Postemployment Benefits

For purposes of measuring the total other postemployment benefits (OPEB) liability and related deferred outflows of resources, deferred inflows of resources, and OPEB expense, the balances have been determined using the flow of economic resources measurement focus and accrual basis of accounting. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

11. Net Position Flow Assumptions

Sometimes the County will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the County's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Orange County, Texas

Notes to the Financial Statements

12. Fund Balance Flow Assumptions

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental funds financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the County's policy to consider restricted fund balance to have been depleted before using any components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, the committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

13. Fund Balance Policies

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The County itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The classifications of fund balance used in the governmental fund financial statements are as follows:

Nonspendable fund balance - represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance - represents amounts constrained to use by 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 fund balance - amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the County's highest level of decision-making authority. Commissioners Court is the highest level of decision-making authority for the County that can, by formal action, commit fund balance. Once adopted, the limitation imposed by Commissioners Court will remain in place until a similar action is taken to remove or revise the limitation. The County has no committed fund balance at September 30, 2020.

Assigned fund balance - amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. Intent can be expressed by the Commissioners' Court or by an official or body to which the Commissioners' Court delegates the authority. The County reports assigned fund balance for subsequent fiscal year appropriations at September 30, 2020.

Unassigned fund balance - accounts for the residual amount in the General Fund. The general fund is the only fund that may report a positive unassigned fund balance. In certain situations, other governmental funds may report a negative unassigned fund balance.

E. Use of Estimates

The preparation of financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Orange County, Texas

Notes to the Financial Statements

Note 2. Stewardship, Compliance and Accountability

A. Budgetary Information

The County annually adopts a budget for all revenue and expenditures for the general fund and the road and bridge fund as required by Texas state law. The County Judge is, by statute, the County Budget Officer and has the responsibility of preparing the annual budget. A copy of the budget is filed with the Clerk of the County Court and is available for inspection by the public. The Court has the authority to make such changes in the budget as, in its judgement, the facts and the situation warrant, and the interest of the taxpayers' demand, provided the amounts budgeted for current expenditures from the various fund 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.

The following procedures are followed in establishing the budgetary data reflected in the financial schedules:

1. In April of each year, preparations are made for departments' submission of their budget request for the following fiscal 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.
2. 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.
3. Prior to October 1, the budget is legally enacted through order of adoption by Commissioners Court.

The Commissioners Court may authorize the County Auditor to transfer an existing budget surplus during the year to any fund not otherwise legally obligated. The budget is adopted whereby the Commissioners 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 measures.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed or assigned, as appropriate. As of September 30, 2020, the County did not have any outstanding encumbrances.

Orange County, Texas

Notes to the Financial Statements

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits

The County's funds are required to be deposited and invested under the terms of a safekeeping agreement. The depository bank deposits for safekeeping and trust with the County's agent bank, approved pledged securities in an amount sufficient to protect County funds on a day-to-day basis during the period of the agreement. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments

The County's investment policy is in accordance with the Public Funds Investment Act (PFIA), the Public Funds Collateral Act, and federal and state laws. The County further limits its investments to obligations of, or guaranteed by, the U.S. Treasury or the State of Texas, certain U.S. Government Agencies, certificates of deposit, or public funds investment pools.

The County categorizes its fair value measurements within the fair value hierarchy established by GAAP. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

1. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
2. Level 2 inputs are inputs - other than quoted prices included within Level 1 - that are observable for an asset or liability, either directly or indirectly.
3. Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Certain of the County's investments are not required to be measured at fair value; this includes its investment in TexPool which is measured at amortized cost and TexasCLASS is measured at fair value (net asset value). These instruments are exempt from categorization within the fair value hierarchy. The County's investment balances, weighted average maturity and credit risks of such investments are as follows:

	Governmental Funds	Fiduciary Funds	Percent of Total Investment	Weighted Average Maturity (Days)	S&P Rating
Investments measured at amortized cost:					
Texpool	\$ 2,154,131	\$ -	32%	38	AAAm
Investments measured at fair value, not subject to level reporting:					
Texas CLASS	4,496,594	105,200	68%	54	AAAm
Total	\$ 6,650,725	\$ 105,200	100%		
Total Portfolio Weighted Average				49	

Orange County, Texas

Notes to the Financial Statements

TexPool is duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Investors, Inc. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; and AAA rated money market mutual funds.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pools transact at a net asset value of \$1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Such investment pools have a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

Texas CLASS was created in accordance with the requirements contained in section 2256.016 of the Public Funds Investment Act (PFIA). The Texas CLASS Trust Agreement is an agreement of indefinite term regarding the investment, reinvestment, and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the Participants), Public Trust Advisors, LLC (Public Trust) as Program Administrator, and Wells Fargo Bank Texas, N.A. as Custodian. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; money market mutual funds; and commercial paper.

Texas CLASS is an external investment pool measured at fair value, i.e. net asset value. The investment pool's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short term marketable securities. The County has no unfunded commitments related to the investment pool. Texas CLASS has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The County monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the County reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than two years. The maximum allowable stated maturity of any other individual investment owned by the County shall not exceed two years from the date of purchase.

Credit Risk

State law and the County's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. The County's investment ratings are noted in the preceding table.

Concentration of Credit Risk

The investment portfolio shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Investments of the County shall always be selected that provide for stability of income and reasonable liquidity. The County's investment policy does not limit an investment in any one issuer.

Orange County, Texas

Notes to the Financial Statements

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. As of September 30, 2020, the County's bank deposits were not exposed to custodial credit risk because such deposits were insured and collateralized with securities held by the County's agent in the County's name.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g. broker/dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The County's policy requires that the investments of the County be secured through third-party custodial and safekeeping procedures as designated by the County. The County's agent holds securities in the County's name; therefore, the County is not exposed to custodial credit risk.

B. Receivables

Receivables as of September 30, 2020, for the County's individual major funds and non-major funds in the aggregate, including applicable allowances for uncollectible amounts, are as follows:

	General	Road and Bridge	Nonmajor Governmental Funds	Total
Receivables:				
Property taxes	\$ 5,590,962	\$ 472,691	\$ 289,207	\$ 6,352,860
Sales taxes	937,691	-	-	937,691
Adjudicated fines	15,788,288	-	-	15,788,288
Other	19,245	395,444	31,736	446,425
Due from other governments	3,245,569	-	-	3,245,569
Gross receivables	25,581,755	868,135	320,943	26,770,833
Less allowance for uncollectible	(19,084,737)	(308,270)	(188,718)	(19,581,725)
Total receivables, net	\$ 6,497,018	\$ 559,865	\$ 132,225	\$ 7,189,108

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned, such as advance fund grants that have not met requirements from resource providers.

Orange County, Texas

Notes to the Financial Statements

As of ended September 30, 2020, the components of unearned revenues and deferred inflows of resources reported in the governmental funds which are not considered to be available are as follows:

	General	Road and Bridge	Nonmajor Governmental Funds	Total
Unearned revenue:				
Grants	\$ 2,434,290	\$ -	\$ -	\$ 2,434,290
Deferred inflows of resources:				
Property taxes	\$ 1,888,279	\$ 158,454	\$ 96,195	\$ 2,142,928
Adjudicated fines	315,766	-	-	315,766
Grants	3,226,630	-	-	3,226,630
	<u>\$ 5,430,675</u>	<u>\$ 158,454</u>	<u>\$ 96,195</u>	<u>\$ 5,685,324</u>

C. Interfund Receivables, Payables and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, debt service and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. The county has no interfund receivables and payables as of September 30, 2020.

Interfund transfers are defined as "flows of assets without equivalent flow of assets in return and without a requirement for repayment". Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. Interfund transfers as of September 30, 2020, are as follows:

Transfer In	Transfer Out	Amount
Road and bridge fund	General fund	\$ 443,701
Non-major governmental funds:		
Economic development corporation	General fund	40,742
Orange county expo center	General fund	353,741
Capital projects	General fund	65,620
Total		<u>\$ 903,804</u>

Orange County, Texas
Notes to the Financial Statements

D. Capital Assets

Capital asset activity for the year ended September 30, 2020 was as follows:

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,725,273	\$ -	\$ -	\$ 1,725,273
Total capital assets, not being depreciated	1,725,273	-	-	1,725,273
Capital assets, being depreciated:				
Buildings and improvements	38,804,009	20,153	-	38,824,162
Furniture, fixtures and equipment	16,499,962	2,195,353	(148,812)	18,546,503
Software	928,420	-	-	928,420
Infrastructure	27,286,354	-	-	27,286,354
Total capital assets, being depreciated:	83,518,745	2,215,506	(148,812)	85,585,439
Less accumulated depreciation:				
Buildings and improvements	(14,530,319)	(1,317,924)	-	(15,848,243)
Furniture, fixtures and equipment	(11,407,069)	(1,068,227)	63,315	(12,411,981)
Software	(440,999)	(92,842)	-	(533,841)
Infrastructure	(18,188,245)	(541,377)	-	(18,729,622)
Total accumulated depreciation	(44,566,632)	(3,020,370)	63,315	(47,523,687)
Total capital assets being depreciated, net	38,952,113	(804,864)	(85,497)	38,061,752
Governmental activities capital assets, net	\$ 40,677,386	\$ (804,864)	\$ (85,497)	\$ 39,787,025

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

Governmental activities:	
General government	\$ 894,663
Legal	500,011
Public works	323,394
Social services	158,296
Public safety	1,144,006
Total depreciation expense - governmental activities	\$ 3,020,370

Orange County, Texas

Notes to the Financial Statements

E. Long-Term Liabilities

The County's long-term liabilities consist of contractual obligations, compensated absences, net pension liability and total OPEB liability. The current requirements for contractual obligations principal and interest expenditures are accounted for in the debt service fund. All other long-term liabilities are generally liquidated with resources of the general fund.

The following is a summary of activity for long-term liabilities of the County for the year ended September 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Contractual obligations:					
Contractual obligations at par	\$ 4,625,000	\$ -	\$ 275,000	\$ 4,350,000	\$ 295,000
Issuance premiums	150,619	-	13,104	137,515	-
Total contractual obligations	4,775,619	-	288,104	4,487,515	295,000
Compensated absences	2,094,461	1,412,289	1,649,186	1,857,564	1,580,000
Net pension liability	19,133,601	14,164,141	24,980,179	8,317,563	-
Total OPEB liability	71,657,737	24,493,428	6,568,154	89,583,011	-
Total governmental activities	\$ 97,661,418	\$ 40,069,858	\$ 33,485,623	\$ 104,245,653	\$ 1,875,000

Contractual Obligations

On October 1, 2016, the County issued \$5,375,000 of Public Property Finance Contractual Obligations (the Obligations), Series 2016. The obligations were issued to fund the acquisition and installation of energy saving repairs and equipment for County buildings. The interest rates on the obligations are 2.00%-2.50% and the obligations mature on March 1, 2031.

The following is a schedule of future debt service payments on the obligations:

September 30,	Principal	Interest	Total
2021	\$ 295,000	\$ 92,313	\$ 387,313
2022	310,000	86,263	396,263
2023	330,000	79,862	409,862
2024	350,000	73,062	423,062
2025	370,000	65,862	435,862
2026	390,000	58,262	448,262
2027	410,000	49,750	459,750
2028	435,000	40,244	475,244
2029	460,000	30,175	490,175
2030	485,000	18,937	503,937
2031	515,000	6,438	521,438
Total	\$ 4,350,000	\$ 601,168	\$ 4,951,168

Orange County, Texas
Notes to the Financial Statements

F. Fund Balance

The County's restricted fund balance for the general fund as of September 30, 2020 is summarized as follows:

Restriction	Amount
Adult Probation	\$ 403,098
Airport Grant	118,956
Bail Bonds	76,156
Child Support Title 4-D	160,799
Child Welfare Jury	19,504
Constable #2 State Forfeiture	1,314
Constable #2 Treasury Forfeiture	2,716
Constable Precinct #1 - Drug Seizure	16,930
Contributions	15,678
County Clerk Records Management	1,783,839
County Federal Drug Seizure	21,622
County State Drug Seizure	48,711
Courthouse Security	240,423
District Attorney Drug Forfeiture	25,213
District Attorney Federal Drug Forfeiture	26,853
District Clerk Records Management	434,048
Drug Forfeiture: Precinct #2	2,190
DWI Audio	63,618
Family Protection Fees	48,464
Forfeiture Proceeds	22,618
Foster Care	172,495
Gambling and Child Porn Forfeiture	86,167
Hot Check Collection	15,335
Hotel / Motel Tax	923,089
Indigent Defense	634,376
Justice of the Peace Technology	95,679
Juvenile Probation	151,602
Law Enforcement Training	32,432
Law Library	324,955
Probate Education	12,979
Records Management	140,141
Tax Assessor/Collector VIT Interest	2,833
Treasury Forfeiture	160
Veterans Donations	820
Voter Registration	5,862
Total Restricted Fund Balance - General Fund	\$ 6,131,675

Orange County, Texas

Notes to the Financial Statements

The County reported deficit fund balances for nonmajor governmental funds, which are expected to be recovered in the subsequent year from general fund resources. The deficit fund balances reported as of September 30, 2020 were in the following amount:

<u>Nonmajor Governmental Fund</u>	<u>Deficit</u>
Orange County Expo Center	\$ (15,041)
Total	\$ (15,041)

Note 4. Other Information

A. Risk Management

The County is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omission and natural disasters. During 2020, the County purchased insurance to cover property and liabilities through the Texas Association of Counties Risk Management Pool, a public entity risk pool. There were no significant reductions in coverage in the past year, and there have been no settlements exceeding insurance coverage in the past three years.

The County purchases workers' compensation insurance coverage through the Texas Association of Counties Risk Management Pool (the Pool), a public entity risk pool, which is self-sustaining through member premiums. There were no significant reductions in coverage in the past year, and there have been no settlements exceeding insurance coverage in the past three years.

B. Contingencies

The County is subject to legal proceedings relating to its operations. In the best judgement of the County's management, the outcome of any present legal proceedings will not have an adverse material effect on the accompanying financial statements.

The County participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Although the County's grant programs have been audited in accordance with the provisions of the Single Audit Act through September 30, 2020, these programs are subject to financial and compliance audits by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. These amounts, if any, cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

C. Defined Benefit Pension Plan

Plan Description

The County participates in a defined benefit pension plan in the Texas County and District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system. The Board of Trustees of TCDRS is responsible for the administration of the retirement system consisting of nearly 800 defined benefit pension plans. TCDRS issues a comprehensive annual financial report (CAFR) on a calendar year basis, which is available to the public at www.tcdrs.org.

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

Orange County, Texas

Notes to the Financial Statements

Benefits Provided

TCDRS provides retirement, disability and survivor benefits for all of its full-time and part-time temporary employees, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

Benefit provisions are adopted by the governing body of the County, within the options available in the state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with eight 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 the monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

At December 31, 2019, the valuation and measurement date of the plan, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	367
Inactive employees entitled to but not yet receiving benefits	197
Active employees	420
	<hr/>
Total	984
	<hr/>

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 15.63% and 15.85% in calendar years 2019 and 2020, respectively. The County contributed using the actuarially determined rate of 15.63% or \$3,696,537 for calendar year 2019. The County's contributions to TCDRS for the year ended September 30, 2020, were \$3,902,431, and exceeded the required contributions.

Net Pension Liability

The County's net pension liability (NPL) was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Orange County, Texas

Notes to the Financial Statements

Actuarial Assumptions

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2019
Actuarial Cost Method	Entry Age Normal
Amortization Method	Straight-Line amortization over expected working life
Asset Valuation Method:	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career, including inflation
Investment Rate of Return (Gross of administrative expenses)	8.10%
Real rate of return	5.25%
Employer-specific economic assumptions:	
Growth in membership	0.00%
Payroll growth	3.25%

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	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

The actuarial assumptions used in the December 31, 2019, valuation were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016, except where required to be different by GASB 68.

Orange County, Texas

Notes to the Financial Statements

Discount Rate

The discount rate used to measure the total pension liability was 8.10%, which is consistent with the prior year discount rate. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on April 2020 information for a 10 year time horizon. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation ⁽¹⁾	Geometric Real Rate of Return ⁽²⁾
U.S. Equities	14.50%	5.20%
Private Equity	20.00%	8.20%
Global Equities	2.50%	5.50%
International Equities - Developed	7.00%	5.20%
International Equities - Emerging Markets	7.00%	5.70%
Investment-Grade Bonds	3.00%	-0.20%
Strategic Credit	12.00%	3.14%
Direct Lending	11.00%	7.16%
Distressed Debt	4.00%	6.90%
REIT Equities	3.00%	4.50%
Master Limited Partnerships	2.00%	8.40%
Private Real Estate Partnerships	6.00%	5.50%
Hedge Funds	8.00%	2.30%

⁽¹⁾ Target asset allocation adopted at the June 2020 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80%, per Cliffwater's 2020 capital market assumptions.

Orange County, Texas
Notes to the Financial Statements

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2018	\$ 134,713,946	\$ 115,580,345	\$ 19,133,601
Changes for the year:			
Service cost	2,793,439	-	2,793,439
Interest on total pension liability	10,822,003	-	10,822,003
Effect of plan changes	371,525	-	371,525
Effect of economic/demographic gains or losses	(816,742)	-	(816,742)
Benefit payments	(7,636,766)	(7,636,766)	-
Employer contributions	-	3,696,537	(3,696,537)
Employee contributions	-	1,483,480	(1,483,480)
Refund of contributions	(323,025)	(323,025)	-
Net investment income	-	18,983,420	(18,983,420)
Administrative expenses	-	(100,289)	100,289
Other	-	(76,885)	76,885
Balance at 12/31/2019	\$ 139,924,380	\$ 131,606,817	\$ 8,317,563

Sensitivity Analysis

The following presents the net pension liability of the County as of December 31, 2019, calculated using the discount rate of 8.10%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.10%) or 1% higher (9.10%) than the current rate.

	1% Decrease in Discount Rate 7.10%	Discount Rate 8.10%	1% Increase in Discount Rate 9.10%
Total pension liability	\$ 156,203,048	\$ 139,924,380	\$ 126,046,867
Fiduciary net position	131,606,817	131,606,817	131,606,817
Net pension liability / (asset)	\$ 24,596,231	\$ 8,317,563	\$ (5,559,950)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TCERS financial report. The report may be obtained on the Internet at www.tcds.org.

Orange County, Texas

Notes to the Financial Statements

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

For the year ended September 30, 2020, the County recognized pension expense of \$3,699,536.

At September 30, 2020, the County reported deferred outflows and inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,636,318
Changes in assumptions	94,343	-
Net difference between projected and actual investment earnings	-	3,318,911
Contributions subsequent to the measurement date	2,698,917	-
Total	\$ 2,793,260	\$ 4,955,229

Deferred outflows of resources related to the Plan resulting from contributions subsequent to the measurement date of \$2,698,917 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2020 (i.e. recognized in the County's financial statements September 30, 2021). Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

September 30,	Amount
2021	\$ (1,469,024)
2022	(1,682,863)
2023	238,770
2024	(1,947,769)
Total	\$ (4,860,886)

D. Other Postemployment Benefit (OPEB) Plan

Plan Description

The County established an other postemployment retiree health care plan (the Retiree Health Plan) to provide health care benefits to eligible retirees who meet all retirement eligibility requirements. The Retiree Health Plan is a single-employer defined benefit OPEB plan administered by the County. Benefit terms and financing requirements are established and amended by the governing body of the County. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Benefits Provided

The Retiree Health Plan provides retiree health care and death benefits for all employees of the County who meet 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.

Employees hired prior to October 1, 2017, are eligible when they meet the earlier of a) age 60 with 8 years of service, b) 20 years of service without regard to age, or c) the sum of age plus years of service equals 75. Employees under this category are eligible to receive lifetime benefits.

Orange County, Texas

Notes to the Financial Statements

Employees hired on or after October 1, 2017, are eligible when they meet age 55 with 12 years of full-time continuous service with the County. Employees under this category are eligible to receive benefits until age 65.

A \$5,000 death benefit is provided to eligible retirees. The County pays the full contribution for this benefit.

At September 30, 2020, the valuation date of the Retiree Health Plan, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	271
Active employees	325
	<hr/>
Total	596

Contributions

The County contributes 100% of the individual rate for the retiree. The retiree contributes 100% of the excess contribution for any dependent coverage elected. The retiree hired prior to October 1, 2017, must enroll in Parts A and B of Medicare when first eligible. For retirements after September 30, 2016, and before February 27, 2019, the County contribution will be based on cumulative service at the date of retirement as follows: 8-11 years = 25%; 12-15 years = 50%; 16-19 years = 75% and 20+ years = 100%.

Total OPEB Liability

The County's total OPEB liability was measured as of the County's fiscal year end September 30, 2020, and was determined by an actuarial valuation as of September 30, 2020.

Actuarial Assumptions

The total OPEB liability in the September 30, 2020, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	September 30, 2020
Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Service Cost	Determined for each employee as the Actuarial Present Value of Benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the plan's benefit formula. This allocation is based on each participant's service between date of hire and date of expected termination.
Total OPEB Liability	The Actuarial Present Value of Benefits allocated to all periods prior to the valuation year.
Discount Rate	2.25% (-0.25% real rate of return plus 2.50% inflation)
Health Care Cost Trend	Level 4.50%
Mortality	RPH-2014 Total Table with Projection MP-2019
Salary Increases	3.50%

Orange County, Texas

Notes to the Financial Statements

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.

The discount rate used to measure the total OPEB liability was 2.25% and was based on the Bond Buyer GO Bond 20 Index as of September 30, 2020.

Changes in the Total OPEB Liability

	Increase (Decrease)
	<u>Total OPEB Liability</u>
Balance at 10/1/2019	\$ 71,657,737
Changes for the year:	
Service cost	2,611,149
Interest on total OPEB liability	2,965,414
Difference between expected and actual experience	(4,109,876)
Effect of assumption changes or inputs	18,916,865
Benefit payments	(2,458,278)
Balance at 9/30/2020	<u>\$ 89,583,011</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the County as of September 30, 2020, calculated using the discount rate of 2.25%, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (1.25%) or 1% higher (3.25%) than the current rate.

	1% Decrease in Discount Rate 1.25%	Discount Rate 2.25%	1% Increase in Discount Rate 3.25%
	<u></u>	<u></u>	<u></u>
Total OPEB liability	\$ 107,434,645	\$ 89,583,011	\$ 75,779,521

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the County as of September 30, 2020, calculated using the healthcare cost trend rate of 4.50%, as well as what the County's total OPEB liability would be if it were calculated using a rate that is 1% lower (3.50%) or 1% higher (5.50%) than the current rate.

	1% Decrease in Healthcare Cost Trend Rate 3.50%	Healthcare Cost Trend Rate 4.50%	1% Increase in Healthcare Cost Trend Rate 5.50%
	<u></u>	<u></u>	<u></u>
Total OPEB liability	\$ 75,105,005	\$ 89,583,011	\$ 108,544,066

Orange County, Texas

Notes to the Financial Statements

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2020, the County recognized OPEB expense of \$8,767,725. At September 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,224,127
Changes in actuarial assumptions and other inputs	14,839,954	-
Totals	\$ 14,839,954	\$ 3,224,127

The amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending September 30:	
2021	\$ 3,191,162
2022	3,191,162
2023	3,191,162
2024	2,042,341
2025	-
Totals	\$ 11,615,827

E. Tax Abatements

As of September 30, 2020, the County provides tax abatement economic development incentives through two programs:

Chapter 312 Texas Tax Code – Property Redevelopment

Under a chapter 312 agreement, a taxpayer and the County agree to exempt all or part of the value increases from real property and / or tangible personal property from taxation for up to 10 years. In return, the taxpayer is required to make certain improvements to their property or meet certain performance benchmarks.

Chapter 381 Texas Local Government Code – County Development and Growth

Under a chapter 381 agreement, a taxpayer and the County agree to exempt all or part of the value increases from real property and / or tangible personal property from taxation for up to 10 years. In return, the taxpayer is required to make certain improvements to their property or meet certain performance benchmarks.

Orange County, Texas

Notes to the Financial Statements

The County had foregone tax revenues for the year ended September 30, 2020, in the following amounts:

Taxpayer	Abatement Period Fiscal Year	FY 2020 Assessed Values	FY 2020 Abated Values	FY 2020 Abated Taxes
Chapter 312				
Remaining (Aggregated)*	Up to 10 years	\$ 5,551,750	\$ 4,548,473	\$ 24,651
Total Chapter 312		<u>\$ 5,551,750</u>	<u>\$ 4,548,473</u>	<u>\$ 24,651</u>
Chapter 381				
Jefferson Gulf Coast Energy	2015 - 2024	\$ 199,601,100	\$ 199,601,100	\$ 1,081,838
Jefferson Gulf Coast Energy	2020 - 2029	75,622,410	75,622,410	409,873
International Paper Company	2014 - 2022	76,655,650	61,324,520	332,379
Remaining (Aggregated)*	2015 - 2026	<u>6,822,982</u>	<u>6,397,222</u>	<u>34,673</u>
Total Chapter 381		<u>\$ 358,702,142</u>	<u>\$ 342,945,252</u>	<u>\$ 1,858,763</u>

*The County used a quantitative threshold of \$50,000 in abated taxes to determine which agreements to disclose individually.

The County has not made any commitments as a part of the abatement agreements other than to reduce taxes. The County is not subject to any tax abatement agreements entered into by other governmental entities.

F. COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected public education, workforces, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and organizations. It is not possible for management to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on the County's operations and financial results at this time.

Required Supplementary Information

Orange County, Texas

Texas County District Retirement System

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios For the Year Ending September 30, 2020*

	2020	2019	2018
TOAL PENSION LIABILITY			
Service cost	\$ 2,793,439	\$ 2,803,212	\$ 2,826,435
Interest (on the total pension liability)	10,822,003	10,531,794	10,049,445
Effect of change in benefit terms	371,525	-	-
Effect of assumption changes or inputs	-	-	377,375
Effect of economic/demographic (gains) or losses	(816,742)	(2,029,333)	(36,383)
Benefit payments/refunds of contributions	(7,959,791)	(7,475,788)	(7,010,713)
Net change in total pension liability	5,210,434	3,829,885	6,206,159
Total pension liability - beginning	134,713,946	130,884,061	124,677,902
TOTAL PENSION LIABILITY - ENDING (a)	\$ 139,924,380	\$ 134,713,946	\$ 130,884,061
PLAN FIDUCIARY NET POSITION			
Contributions - employer	\$ 3,696,537	\$ 3,203,370	\$ 3,010,437
Contributions - employee	1,483,480	1,444,821	1,427,716
Investment income net of investment expenses	18,983,420	(2,283,104)	15,700,090
Benefit payments/refunds of contributions	(7,959,791)	(7,475,788)	(7,010,713)
Administrative expenses	(100,289)	(92,835)	(80,373)
Other	(76,885)	(72,101)	(35,235)
Net change in plan fiduciary net position	16,026,472	(5,275,637)	13,011,922
Plan fiduciary net position - beginning	115,580,345	120,855,982	107,844,060
PLAN FIDUCIARY NET POSITION - ENDING (b)	\$ 131,606,817	\$ 115,580,345	\$ 120,855,982
NET PENSION LIABILITY (ASSET) - ENDING (a)-(b)	\$ 8,317,563	\$ 19,133,601	\$ 10,028,079
Plan fiduciary net position as a percentage of total pension liability	94.06%	85.80%	92.34%
County's covered payroll	\$ 21,192,571	\$ 20,640,239	\$ 20,395,886
County's net pension liability as a percentage of its covered payroll	39.25%	92.70%	49.17%

Notes to the Schedule of Changes in the Net Pension Liability and Related Ratios

*The amounts presented for the fiscal year were determined as of the Plan's fiscal year end, December 31 of the prior year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

2017	2016	2015
\$ 2,933,345	\$ 2,866,461	\$ 2,954,608
9,464,871	9,038,075	8,571,838
-	(420,920)	-
-	1,192,989	-
25,268	(992,652)	(586,980)
(6,194,837)	(5,948,242)	(5,105,689)
6,228,647	5,735,711	5,833,777
118,449,255	112,713,544	106,879,767
<u>\$ 124,677,902</u>	<u>\$ 118,449,255</u>	<u>\$ 112,713,544</u>
\$ 2,919,744	\$ 2,853,719	\$ 2,778,675
1,409,535	1,400,843	1,405,400
7,557,125	(208,052)	6,698,765
(6,194,837)	(5,948,242)	(5,105,689)
(82,106)	(74,039)	(77,763)
86,956	364,968	(116,283)
5,696,417	(1,610,803)	5,583,105
102,147,643	103,758,446	98,175,341
<u>\$ 107,844,060</u>	<u>\$ 102,147,643</u>	<u>\$ 103,758,446</u>
<u>\$ 16,833,842</u>	<u>\$ 16,301,612</u>	<u>\$ 8,955,098</u>
86.50%	86.24%	92.05%
\$ 20,136,210	\$ 20,012,048	\$ 20,077,146
83.60%	81.46%	44.60%

Orange County, Texas

Texas County District Retirement System Schedule of Employer Contributions For the Year Ending September 30, 2020*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 3,518,283	\$ 3,252,626	\$ 3,170,650
Contributions in relation to the actuarially determined contribution	<u>3,902,431</u>	<u>3,252,626</u>	<u>3,170,650</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u><u>\$ (384,148)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Covered payroll	\$ 22,270,165	\$ 20,844,598	\$ 20,670,656
Contribution as a percentage of covered payroll	17.52%	15.60%	15.34%

Notes to the Schedule of Employer Contributions

*The amounts presented for the fiscal years were determined as of the County's fiscal year end, September 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information the County will present for those years for which information is available.

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 2,977,230	\$ 3,010,651	\$ 2,837,715
<u>2,977,230</u>	<u>3,010,651</u>	<u>2,837,715</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 20,255,233	\$ 20,854,205	\$ 20,063,442
14.70%	14.44%	14.14%

Orange County, Texas

Single Employer Retiree Health Care Plan

Schedule of Changes in the Employer's Total OPEB Liability and Related Ratios For the Year Ending September 30, 2020*

	2020	2019	2018
TOTAL OPEB LIABILITY			
Service cost	\$ 2,611,149	\$ 2,611,149	\$ 2,509,273
Interest (on the total OPEB liability)	2,965,414	2,732,525	2,703,126
Difference between expected and actual experience	(4,109,876)	-	-
Effect of assumption changes or inputs	18,916,865	-	-
Benefit payments/refunds of contributions	(2,458,278)	(1,979,011)	(1,979,011)
Net change in total OPEB liability	17,925,274	3,364,663	3,233,388
Total OPEB liability - beginning	71,657,737	68,293,074	65,059,686
TOTAL OPEB LIABILITY - ENDING (a)	\$ 89,583,011	\$ 71,657,737	\$ 68,293,074
County's covered payroll	\$ 16,126,745	\$ 20,844,598	\$ 20,670,656
County's total OPEB liability as a percentage of its covered payroll	555.49%	343.77%	330.39%

Notes to the Schedule of Changes in the Total OPEB Liability and Related Ratios

*The amounts presented for the fiscal year were determined as of the Plan's fiscal year end, September 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

The Retiree Health Care Plan is considered to be an unfunded OPEB plan; therefore, no plan fiduciary net position and related ratios are reported in the above schedule.

Orange County, Texas

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – General Fund For the Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance - Positive (Negative)
REVENUES				
Property taxes	\$ 27,180,245	\$ 27,180,245	\$ 28,698,920	\$ 1,518,675
Sales taxes	5,300,000	5,300,000	5,711,034	411,034
Miscellaneous taxes	308,300	308,300	193,657	(114,643)
Payments in lieu of taxes	297,750	297,750	340,958	43,208
Other governmental support	3,980,371	11,515,121	3,167,809	(8,347,312)
Fees of office	4,484,740	4,446,618	3,290,043	(1,156,575)
Forfeitures	1,000	1,000	666,031	665,031
Interest	261,810	264,310	153,928	(110,382)
Other	922,550	1,553,134	1,129,937	(423,197)
Total revenues	42,736,766	50,866,478	43,352,317	(7,514,161)
EXPENDITURES				
Current:				
General government	18,728,187	21,667,922	16,424,127	5,243,795
Legal	7,942,426	7,979,154	6,703,822	1,275,332
Public works	1,259,336	11,922,991	9,852,898	2,070,093
Social services	2,329,060	2,664,139	1,969,727	694,412
Public safety	16,424,384	15,391,332	14,114,441	1,276,891
Capital outlay	959,082	2,156,685	1,081,627	1,075,058
Total expenditures	47,642,475	61,782,223	50,146,642	11,635,581
Excess (deficiency) of revenues over (under) expenditures	(4,905,709)	(10,915,745)	(6,794,325)	4,121,420
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	25,000	25,000	-	(25,000)
Insurance proceeds	-	200,000	201,734	1,734
Transfers in/out	-	-	(903,804)	(903,804)
Total other financing sources (uses)	25,000	225,000	(702,070)	(927,070)
Net change in fund balance	(4,880,709)	(10,690,745)	(7,496,395)	3,194,350
Fund balance, beginning	15,203,587	15,203,587	15,203,587	-
FUND BALANCE, ENDING	<u>\$ 10,322,878</u>	<u>\$ 4,512,842</u>	<u>\$ 7,707,192</u>	<u>\$ 3,194,350</u>

Orange County, Texas

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Road and Bridge Fund For the Year Ended September 30, 2019

	Original Budget	Final Budget	Actual	Variance - Positive (Negative)
REVENUES				
Property taxes	\$ 1,764,612	\$ 1,764,612	\$ 1,868,790	\$ 104,178
Other governmental support	31,690	226,220	31,695	(194,525)
Fees of office	1,966,765	1,966,765	2,171,970	205,205
Interest	12,800	12,800	-	(12,800)
Other	136,000	136,000	104,755	(31,245)
Total revenues	3,911,867	4,106,397	4,177,210	70,813
EXPENDITURES				
Current:				
Public works	5,248,482	5,428,503	4,633,471	795,032
Capital outlay	526,524	1,198,100	1,121,457	76,643
Total expenditures	5,775,006	6,626,603	5,754,928	871,675
Excess (deficiency) of revenues over (under) expenditures	(1,863,139)	(2,520,206)	(1,577,718)	942,488
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	443,701	443,701
Total other financing sources (uses)	-	-	443,701	443,701
Net change in fund balance	(1,863,139)	(2,520,206)	(1,134,017)	1,386,189
Fund balance, beginning of year	1,260,800	1,260,800	1,260,800	-
FUND BALANCE, END OF YEAR	\$ (602,339)	\$ (1,259,406)	\$ 126,783	\$ 1,386,189

Supplementary Information

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NONMAJOR GOVERNMENTAL FUNDS

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

Mosquito Control

Economic Development Corporation

Orange County Expo Center

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

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

Orange County, Texas
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2020

	Mosquito Control	Economic Development Corporation	Orange County Expo Center	Capital Projects
ASSETS				
Cash and cash equivalents	\$ 163,563	\$ -	\$ 7,521	\$ 65,970
Receivables, net:				
Property taxes	77,953	-	-	-
Other receivables	-	31,736	-	-
TOTAL ASSETS	\$ 241,516	\$ 31,736	\$ 7,521	\$ 65,970
LIABILITIES				
Accounts payable	\$ 27,476	\$ -	\$ 18,535	\$ -
Accrued liabilities	22,334	6,352	4,027	-
Total liabilities	49,810	6,352	22,562	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	74,777	-	-	-
Total deferred inflows of resources	74,777	-	-	-
FUND BALANCES				
Restricted	116,929	25,384	-	65,970
Unassigned (deficit)	-	-	(15,041)	-
Total fund balances	116,929	25,384	(15,041)	65,970
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 241,516	\$ 31,736	\$ 7,521	\$ 65,970

<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 18,500	\$ 255,554
22,536	100,489
-	31,736
<u>\$ 41,036</u>	<u>\$ 387,779</u>
\$ -	\$ 46,011
-	32,713
-	78,724
21,418	96,195
21,418	96,195
19,618	227,901
-	(15,041)
<u>19,618</u>	<u>212,860</u>
<u>\$ 41,036</u>	<u>\$ 387,779</u>

Orange County, Texas

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended September 30, 2020

	Mosquito Control	Economic Development Corporation	Orange County Expo Center	Capital Projects
REVENUES				
Property taxes	\$ 1,009,029	\$ -	\$ -	\$ -
Miscellaneous taxes	-	-	129,184	-
Other governmental support	-	185,180	-	-
Interest	-	-	-	293
Other	-	2	22,434	-
Total revenues	1,009,029	185,182	151,618	293
EXPENDITURES				
Current:				
General government	-	178,514	263,259	1,805
Social services	901,444	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	12,422	-	-	-
Total expenditures	913,866	178,514	263,259	1,805
Excess (deficiency) of revenues over (under) expenditures	95,163	6,668	(111,641)	(1,512)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	40,742	353,741	65,620
Total other financing sources (uses)	-	40,742	353,741	65,620
Net change in fund balance	95,163	47,410	242,100	64,108
Fund balances, beginning	21,766	(22,026)	(257,141)	1,862
FUND BALANCES, ENDING	\$ 116,929	\$ 25,384	\$ (15,041)	\$ 65,970

Debt Service		Total Nonmajor Governmental Funds	
\$	354,280	\$	1,363,309
	-		129,184
	-		185,180
	25		318
	-		22,436
<hr/>		<hr/>	
	354,305		1,700,427
	-		443,578
	-		901,444
	275,000		275,000
	98,013		98,013
	-		12,422
<hr/>		<hr/>	
	373,013		1,730,457
<hr/>		<hr/>	
	(18,708)		(30,030)
	-		460,103
<hr/>		<hr/>	
	-		460,103
<hr/>		<hr/>	
	(18,708)		430,073
	38,326		(217,213)
<hr/>		<hr/>	
\$	19,618	\$	212,860
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FIDUCIARY FUNDS

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

Justice 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.

Orange County Juvenile Probation – This fund is used to account for monies collected for the purpose of supervising youth who have been found guilty of having committed a delinquent act to monitor the juvenile's adherence to special conditions and mandatory sanctions related to the offense.

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.

Seizure Funds – This fund is used to account for monies collected during Sheriff office seizures.

Orange County, Texas

Agency Funds

Combining Statement of Assets and Liabilities

September 30, 2020

	<u>County Attorney</u>	<u>Justice of the Peace</u>	<u>County Clerk</u>	<u>District Clerk</u>
ASSETS				
Cash and cash equivalents	\$ 18,178	\$ 32,339	\$ 35,333,223	\$ 368,661
Investments	-	-	-	-
Other receivables	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 18,178</u>	<u>\$ 32,339</u>	<u>\$ 35,333,223</u>	<u>\$ 368,661</u>
LIABILITIES				
Due to others	\$ 18,178	\$ 32,339	\$ 35,333,223	\$ 368,661
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	<u>\$ 18,178</u>	<u>\$ 32,339</u>	<u>\$ 35,333,223</u>	<u>\$ 368,661</u>

		Orange County Juvenile Probation				
<u>Tax Assessor</u>	<u>Child Support</u>			<u>Sheriff</u>	<u>Seizure Funds</u>	<u>Total</u>
\$ 1,124,182	\$ 250	\$ 35,551		\$ 200,440	\$ 26,725	\$ 37,139,549
-	-	-		-	105,200	105,200
29,914	-	-		-	-	29,914
<u>\$ 1,154,096</u>	<u>\$ 250</u>	<u>\$ 35,551</u>		<u>\$ 200,440</u>	<u>\$ 131,925</u>	<u>\$ 37,274,663</u>
 \$ 1,154,096	 \$ 250	 \$ 35,551		 \$ 200,440	 \$ 131,925	 \$ 37,274,663
<u>\$ 1,154,096</u>	<u>\$ 250</u>	<u>\$ 35,551</u>		<u>\$ 200,440</u>	<u>\$ 131,925</u>	<u>\$ 37,274,663</u>

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**Independent Auditor's 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
Commissioners' Court of Orange County,
Orange County, Texas

We have audited, 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, 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, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 26, 2021.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

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.

The Honorable Judge and Members of the
Commissioners' Court of Orange County

The County's Response to Findings

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

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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
May 26, 2021

**Independent Auditor's Report on Compliance for Each Major Federal
Program and Report on Internal Control over Compliance
in Accordance with the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited Orange County, Texas's (the County) compliance with the types of compliance requirements described in the *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, 2020. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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, the 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, 2020.

Report on Internal Control over Compliance

Management of the 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 the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the 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 have not been identified.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
May 26, 2021

Orange County, Texas

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020

Section 1. Summary of Auditor's Results

Financial Statements

- | | |
|--|----------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Yes – 2020-001 |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|--|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 5. Type of auditor's report issued on compliance with major programs | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | No |
| 7. Identification of major programs | COVID 19 – Coronavirus Relief Fund
21.019 |
| 8. Dollar threshold used to distinguish between Type A and Type B federal programs | \$750,000 |
| 9. Auditee qualified as a low-risk auditee? | No |

Orange County, Texas

Schedule of Findings and Questioned Costs - Continued

For the Year Ended September 30, 2020

Section 2. Financial Statement Findings

2020-001 – Recurring

Material Weakness in Internal Control over Financial Reporting: Financial Statement Misstatements

Criteria: Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

Condition: Material adjusting journal entries were identified during the audit of the financial statements that were not previously identified or corrected in a timely manner by the County.

Cause: In the preparation of its financial records for the fiscal year ended September 30, 2020, the County did not identify misstatements in multiple general ledger accounts, including: accounts receivable allowance for uncollectible accounts, unearned revenue, interfund transfers in/out, expenses and revenues. Because these errors were not detected timely by the County, there is an indication that closing procedures, specifically the monitoring and review of financial information, were not being effectively performed.

Effect or Potential Effect: Material misstatements of the County's financial statements were not prevented, or detected and corrected, by the County's system of internal control. Failure to establish effective monitoring and closing procedures will allow possible irregularities to exist and continue without notice.

Recommendation: We recommend that the County review its internal control procedures over financial reporting to ensure controls are in place to identify and record all transactions in the correct period.

Section 3. Federal Award Findings and Questioned Costs

None reported

Orange County, Texas

Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2020

Prior Year Findings

2019-001

Material Weakness in Internal Control over Financial Reporting: Financial Statement Misstatements

Criteria: Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

Current status: See current year finding 2020-001



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

Audit Finding Reference: 2020-001

Planned Corrective Action: As Orange County's fiscal year 2019-2020 was anything but "a normal year of performing assigned functions", I will continue to enhance year-end processes and procedures. Orange County was one of the only Texas Counties that experienced major impact from Hurricane Laura. Over \$14 million in clean-up costs and the documentation required for federal claims created significant additional burden. Compounding the situation were large additional projects for COVID relief and other emergency grants that required countless hours of work in 2020. Reporting with the appropriate agencies and continued compilation of grant information will continue and be processed within a more typical cycle and time period. Also, the use of a year-end workbook and checklists; begun in 2018-19, will be continued to ensure comprehensive and timely year-end processing of closing-entries. Year-end closing entries will be reviewed with journal entries created in a timely manner to properly report activity at year-end using the modified-accrual basis of accounting.

Estimated Date of Completion: Corrective action for succeeding years will begin in May 2021 as budget preparation begins and continues until the year-end close process is complete.

Responsible Person: County Auditor

Orange County, Texas
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020

Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA # Number	Pass-through Grantor Number	Grant Funds Expended
U.S. DEPARTMENT OF JUSTICE			
Direct Program:			
State Criminal Alien Assistance Program	16.606	N/A	\$ 12,661
Bulletproof Vest Partnership	16.607	N/A	2,210
Federal Equitable Sharing Program	16.922	N/A	80,142
TOTAL U.S. DEPARTMENT OF JUSTICE			95,013
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through Southeast Texas Regional Planning Commission:			
Transportation Services - Section 5311	20.509	RPT-19021739	117,546
COVID 19 - CARES Act - Transportation Services - Section 5311	20.509	CAF-2001(20)072_20	138,586
Total CFDA 20.509			256,132
Passed Through Texas Department of Transportation:			
COVID 19 - Airport Maintenance Grant (RAMP)	20.106	20CRORANG	6,136
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			262,268
U.S. DEPARTMENT OF THE TREASURY			
Direct Program:			
Federal Equitable Sharing Program	21.016	N/A	545,733
Passed Through Texas Division of Emergency Management:			
COVID 19 - Coronavirus Relief Fund	21.019	2020-CF-21019	2,271,500
TOTAL U.S. DEPARTMENT OF THE TREASURY			2,817,233
U.S. ELECTIONS ASSISTANCE COMMISSION			
Passed Through Texas Division of Emergency Management:			
COVID 19 - Help America Vote Act Requirements Payments	90.401	TX20101CARES-057	9,181
COVID 19 - Help America Vote Act (HAVA) Security Payments	90.404	TX20101CARES-057	120,000
TOTAL U.S. ELECTIONS ASSISTANCE COMMISSION			129,181
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Program:			
National Retail Food Regulatory Program	93.103	N/A	2,625
Passed Through Texas Department of Family and Protective Services:			
Foster Care Title IV-E	93.658	HHS000285000034	14,544
Passed Through Texas Department of State Health Services			
Regional Local Services System/Local Public Health Services Grant	93.991	HHS000485600048	35,713
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			52,882
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Texas Division of Emergency Management:			
Disaster Grants - Public Assistance (FEMA)	97.036	PA-4332	663,398
Disaster Grants - Public Assistance (FEMA)	97.036	PA-1791	181,945
Total Program 97.036			845,343
Passed Through Texas Division of Emergency Management:			
Emergency Management Performance Grant	97.042	EMT-2019-EP-0005	31,677
Passed Through Texas Office of the Governor:			
State Homeland Security (SHSP)	97.067	38831-01	3,019
State Homeland Security (SHSP)	97.067	38201-01	42,675
Total Program 97.067			45,694
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			922,714
TOTAL EXPENDITURES OF FEDERAL AWARDS			4,279,291

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

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Orange County, Texas

Notes to Schedule of Expenditures of Federal Awards

Note 1. Summary of Accounting Policies

The County accounts for all awards under federal programs on the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measureable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain long-term liabilities, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and accordingly, when such funds are received in advance, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of the specified project periods.

The Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the County under programs of the federal government for the fiscal year ended September 30, 2020. The information in the Schedule is presented in accordance with the requirements of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position or changes in net position of the County.

Note 2. De Minimis Cost Rate

The County has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

Note 3. Relationship to Federal Financial Reports

The information included in the Schedule as of September 30, 2020, which have been submitted to grantor agencies will, in some cases, differ from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

In accordance with Uniform Guidance, non-federal entities must record expenditures for Disaster Grants - Public Assistance (FEMA) on the SEFA when: (1) FEMA has approved the non-federal entity's project worksheet, and (2) the non-Federal entity has incurred the eligible expenditures. FEMA awards of \$845,343 were reported in the Schedule, upon meeting both criteria, in the current fiscal year for expenditures incurred in the prior fiscal year.