

**HEART OF TEXAS COUNCIL
OF GOVERNMENTS**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Heart of Texas Council of Governments as of and for the year ended September 30, 2010, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Council as of September 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 14, 2011, on our consideration of the Council'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular a-133, "Audits of States, Local Governments and Nonprofit Organizations," and the State of Texas Uniform Grant Management Standards, issued by the Governor's Office of Budget and Planning, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Paul W. Brown & Hill, LLP

January 14, 2011

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis

This section of the Heart of Texas Council of Governments' (HOTCOG) annual report offers a narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, notes to the financial statements, and supplemental schedules.

FINANCIAL HIGHLIGHTS

- The assets of Heart of Texas Council of Governments exceeded its liabilities as of September 30, 2010, by \$2,016,817 (net assets). Of this amount, \$234,009 (unrestricted net assets) may be used to meet the Council's ongoing obligations.
- The Council's total net assets increased by \$1,322,661.
- As of the close of the current fiscal year, Heart of Texas Council of Governments' governmental funds reported combined ending fund balances of \$353,095, a decrease of \$14,186 in comparison with the prior year.
- As of September 30, 2010, unreserved and undesignated fund balance in the General Fund was \$107,361.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to HOTCOG's basic financial statements. These statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements – The government-wide statements are designed to provide readers with a broad overview of HOTCOG's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of HOTCOG's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of HOTCOG.

The Statement of Activities presents information showing how HOTCOG's net assets changed during the fiscal year. All changes in net assets are reported when an event that gives rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused compensated absences). The government-wide financial statements can be found on pages 9 through 10 of this report.

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. HOTCOG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds – Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the Council's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

HOTCOG maintains 11 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Texas Department of Aging and Disabilities Services Fund, the Texas Department of Transportation Fund, the U. S. Department of Homeland Security Fund and the Commission on State Emergency Communications Fund, which are considered to be major funds. Data from the other 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.

HOTCOG's Board approves a financial plan for revenue and expenditures in all funds. Although the financial plans are reviewed and approved by HOTCOG's Board, they are not considered legally adopted annual budgets or appropriations. Accordingly, comparative budget and actual results are not presented in this report.

The basic governmental fund financial statements can be found on pages 11 through 14 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 24 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and other schedules that further support the information in the financial statements. The combining fund statements for non-major funds and other schedules can be found on pages 25 through 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In HOTCOG's case, assets exceeded liabilities by \$2,016,817 as of September 30, 2010.

HEART OF TEXAS COUNCIL OF GOVERNMENTS' NET ASSETS

	Governmental Activities	
	2010	2009
Current assets	\$ 1,133,189	\$ 926,786
Capital assets	<u>4,430,515</u>	<u>3,272,811</u>
Total assets	<u>5,563,704</u>	<u>4,199,597</u>
Current liabilities	790,972	573,900
Other liabilities	<u>2,755,915</u>	<u>2,931,541</u>
Total liabilities	<u>3,546,887</u>	<u>3,505,441</u>
Net assets:		
Invested in capital assets, net of related debt	1,741,464	404,136
Restricted for:		
Building maintenance	41,344	33,641
Unrestricted	<u>234,009</u>	<u>256,379</u>
Total net assets	<u>\$ 2,016,817</u>	<u>\$ 694,156</u>

A large portion of HOTCOG's net assets (86%) reflects its investment in capital assets. HOTCOG uses these assets to provide services; consequently, these values are not available for spending. The remaining balance is unrestricted and may be used to meet HOTCOG's ongoing needs.

The Council's total assets increased by \$1,364,107 (32%) during the year. Total liabilities increased by \$41,446 (1%). The Council's net assets increased during the year by \$1,322,661.

Analysis of HOTCOG's Operations – The following table provides a summary of HOTCOG's operations for the year ended September 30, 2010.

**HEART OF TEXAS COUNCIL OF GOVERNMENTS'
CHANGES IN NET ASSETS**

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues	\$ 8,462,508	\$ 6,374,839
General revenues	616,479	536,324
Total revenues	9,078,987	6,911,163
Expenses after allocation of indirect costs:		
General government	312,917	213,323
Aging	2,984,929	3,003,230
Health and human services	637,350	408,859
Criminal justice	177,479	149,366
Community development	86,788	102,846
Transportation	1,459,831	1,434,767
Environmental quality	200,527	216,042
Emergency communications	1,101,298	675,902
Economic development	213,575	171,280
Homeland security	440,763	346,685
Interest on long-term debt	140,869	186,550
Total expenses after allocation of indirect costs	7,756,326	6,908,850
Change in net assets	1,322,661	2,313
Net assets, beginning	694,156	691,843
Net assets, ending	\$ 2,016,817	\$ 694,156

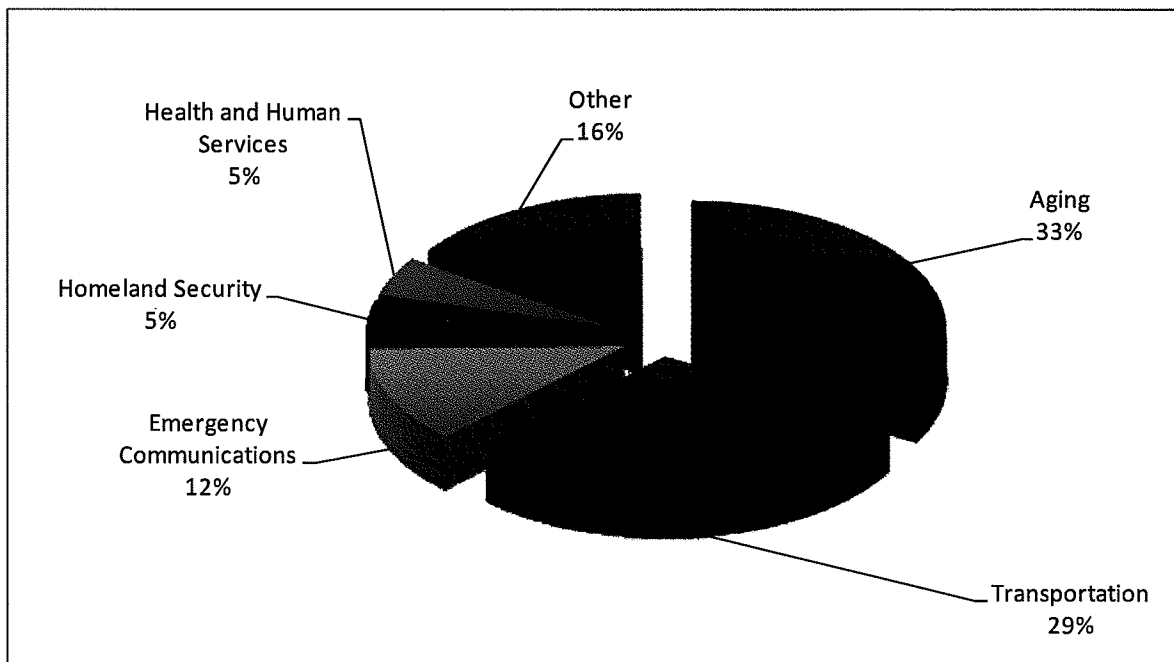
The Council experienced an increase in program revenues of \$2,167,824 or 31% from 2009. Expenses increased by \$847,476 or 12% from the prior year.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

At the end of the current fiscal year, Heart of Texas Council of Governments’ governmental funds reported combined ending fund balances of \$353,095. The General Fund had a decrease in fund balance of \$70,535 from the prior year, primarily as a result of the under recovery of fringe benefits which will be adjusted in a future fiscal year.

Governmental Fund Expenditures by Function



CAPITAL ASSETS

HOTCOG's investment in capital assets for its governmental activities as of September 30, 2010, amounts to \$4,430,515 (net of accumulated depreciation). This investment in capital assets consists of the following:

HEART OF TEXAS COUNCIL OF GOVERNMENTS' CAPITAL ASSETS AT YEAR-END

	Governmental Activities	
	2010	2009
Capital assets:		
Land	\$ 690,000	\$ 690,000
Furniture and equipment	2,814,647	1,449,018
Buildings and improvements	2,810,000	2,810,000
Less accumulated depreciation	(1,884,132)	(1,676,207)
Total capital assets, net	\$ <u>4,430,515</u>	\$ <u>3,272,811</u>

ECONOMIC FACTORS AND NEXT YEAR'S ANNUAL FINANCIAL PLAN

The Heart of Texas Council of Governments is dependent on federal, state and local funding, which can vary widely from year to year. The federal economic condition and federal budget deficits can impact the reauthorization of funds available to local governments. It should be noted that HOTCOG does not know of any significant factors that would affect the financial plan for fiscal year 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of HOTCOG's finances. If you have questions about this report or need any additional information, please contact the Director of Administration at 1514 South New Road, Waco, Texas, 76711.

**BASIC
FINANCIAL STATEMENTS**

HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash	\$ 15,532
Investments	472,711
Receivables:	
Grantors	635,280
Other	7,036
Prepaid expenses	<u>2,630</u>
Total current assets	<u>1,133,189</u>
Noncurrent assets:	
Capital assets:	
Land	690,000
Buildings and improvements	2,810,000
Furniture and equipment	2,814,647
Less: accumulated depreciation	<u>(1,884,132)</u>
Total capital assets	<u>4,430,515</u>
Total noncurrent assets	<u>4,430,515</u>
Total assets	<u>5,563,704</u>
LIABILITIES	
Current liabilities:	
Accounts payable	300,011
Unearned revenue	194,222
Due to HOTEDD	278,790
Accrued liabilities	<u>17,949</u>
Total current liabilities	<u>790,972</u>
Noncurrent liabilities:	
Due within one year	186,749
Due in more than one year	<u>2,569,166</u>
Total noncurrent liabilities	<u>2,755,915</u>
Total liabilities	<u>3,546,887</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,741,464
Restricted for building maintenance	41,344
Unrestricted	<u>234,009</u>
Total net assets	<u>\$ 2,016,817</u>

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

HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Indirect Cost Allocation	Expenses After Allocation of Indirect Costs	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:					
General government	\$ 312,917	\$ -	\$ 312,917	\$ 3,080	\$(309,837)
Aging	2,816,563	168,366	2,984,929	2,946,889	(38,040)
Health and human services	520,692	116,658	637,350	651,360	14,010
Criminal justice	155,265	22,214	177,479	435,191	257,712
Community development	66,393	20,395	86,788	76,097	(10,691)
Transportation	1,384,052	75,779	1,459,831	2,680,872	1,221,041
Environmental quality	185,283	15,244	200,527	200,527	-
Emergency communications	1,046,130	55,168	1,101,298	1,129,159	27,861
Economic development	185,130	28,445	213,575	61,814	(151,761)
Homeland security	379,336	61,427	440,763	277,519	(163,244)
Indirect costs	563,696	(563,696)	-	-	-
Interest on long-term debt	140,869	-	140,869	-	(140,869)
Total governmental activities	\$ 7,756,326	\$ -	\$ 7,756,326	\$ 8,462,508	706,182

General revenues:

Rent	478,623
Membership dues	53,101
Miscellaneous income	84,755

Total general revenues 616,479

Change in net assets 1,322,661

Net assets, beginning 694,156

Net assets, ending \$ 2,016,817

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

HEART OF TEXAS COUNCIL OF GOVERNMENTS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	General	Texas Department of Aging and Disability Services	Texas Department of Transportation
ASSETS			
Cash	\$ 15,532	\$ -	\$ -
Investments	472,711	-	-
Due from other funds	-	70,286	-
Due from grantor agencies	935	81,101	231,340
Other receivables	7,036	-	-
Prepaid items	2,630	-	-
Total assets	498,844	151,387	231,340
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	19,258	150,379	81,175
Due to other funds	7,530	-	84,167
Deferred revenue	29,675	-	17,458
Due to HOTEDD	278,790	-	-
Accrued liabilities	7,071	-	-
Total liabilities	342,324	150,379	182,800
Fund balances:			
Reserved for prepaid items	2,630	-	-
Reserved for building maintenance	41,344	-	-
Unreserved:			
Designated for emergency notification system	5,185	-	-
Undesignated, reported in:			
General fund	107,361	-	-
Special revenue funds	-	1,008	48,540
Total fund balances	156,520	1,008	48,540
Total liabilities and fund balances	\$ 498,844	\$ 151,387	\$ 231,340

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Net assets of governmental activities

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

U. S. Department of Homeland Security	Commission on State Emergency Communications	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 15,532
-	-	-	472,711
-	139,184	55,722	265,192
98,040	-	223,864	635,280
-	-	-	7,036
-	-	-	2,630
<u>98,040</u>	<u>139,184</u>	<u>279,586</u>	<u>1,398,381</u>
18,697	24,589	5,913	300,011
79,343	-	94,152	265,192
-	114,595	32,494	194,222
-	-	-	278,790
-	-	-	7,071
<u>98,040</u>	<u>139,184</u>	<u>132,559</u>	<u>1,045,286</u>
-	-	-	2,630
-	-	-	41,344
-	-	-	5,185
-	-	-	107,361
-	-	147,027	196,575
-	-	147,027	353,095
<u>\$ 98,040</u>	<u>\$ 139,184</u>	<u>\$ 279,586</u>	<u>\$ 1,398,381</u>

\$ 4,430,515
(2,766,793)
\$ 2,016,817

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>General</u>	<u>Texas Department of Aging and Disability Services</u>	<u>Texas Department of Transportation</u>
REVENUES			
Federal	\$ -	\$ 1,729,346	\$ 2,004,517
State	3,080	111,310	522,057
Program income/in-kind match	-	1,106,233	154,298
Rent	478,623	-	-
Local funds	70,896	-	-
Membership dues	53,101	-	-
Investment income	389	-	-
Miscellaneous	13,470	-	-
Total revenues	<u>619,559</u>	<u>2,946,889</u>	<u>2,680,872</u>
EXPENDITURES			
Current:			
General government	230,928	-	-
Aging	-	2,984,929	-
Transportation	-	-	2,677,577
Emergency communications	-	-	-
Homeland security	-	-	-
Health and human services	3,081	-	-
Environmental quality	-	-	-
Criminal justice	-	-	-
Community development	-	-	-
Economic development	87,578	-	-
Debt service	324,010	-	-
Total expenditures	<u>645,597</u>	<u>2,984,929</u>	<u>2,677,577</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(26,038)</u>	<u>(38,040)</u>	<u>3,295</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	38,040	-
Transfers out	(44,497)	-	-
Total other financing sources and uses	<u>(44,497)</u>	<u>38,040</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(70,535)</u>	<u>-</u>	<u>3,295</u>
FUND BALANCES, BEGINNING	<u>227,055</u>	<u>1,008</u>	<u>45,245</u>
FUND BALANCES, ENDING	<u>\$ 156,520</u>	<u>\$ 1,008</u>	<u>\$ 48,540</u>

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

U. S. Department of Homeland Security	Commission on State Emergency Communications	Other Governmental Funds	Total Governmental Funds
\$ 435,191	\$ -	\$ 412,685	\$ 4,581,739
-	1,118,568	828,854	2,583,869
-	450	20,000	1,280,981
-	-	-	478,623
-	-	5,361	76,257
-	-	-	53,101
-	141	417	947
-	-	-	13,470
<u>435,191</u>	<u>1,119,159</u>	<u>1,267,317</u>	<u>9,068,987</u>
-	-	-	230,928
-	-	-	2,984,929
-	-	-	2,677,577
-	1,119,159	-	1,119,159
435,191	-	-	435,191
-	-	634,269	637,350
-	-	200,527	200,527
-	-	177,479	177,479
-	-	86,788	86,788
-	-	121,657	209,235
-	-	-	324,010
<u>435,191</u>	<u>1,119,159</u>	<u>1,220,720</u>	<u>9,083,173</u>
-	-	46,597	(14,186)
-	-	70,534	108,574
-	-	(64,077)	(108,574)
-	-	6,457	-
-	-	53,054	(14,186)
-	-	93,973	367,281
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,027</u>	<u>\$ 353,095</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Net change in fund balances - total governmental funds: \$(14,186)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. The depreciation expense for the current period is \$180,059. 1,147,704

Donations of capital assets increase the net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources. 10,000

Governmental funds report repayment of the principal on long-term debt as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. 179,624

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. (481)

Change in net assets of governmental activities \$ 1,322,661

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

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Heart of Texas Council of Governments ("HOTCOG") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies and practices used by the Council.

A. Description of the Reporting Entity

HOTCOG is a voluntary organization of local governmental units within Central Texas, created by the State of Texas under Article 1011M, V.A.C.S. and recognized as a political subdivision of the State. The stated purpose of HOTCOG is the improvement of the health, safety and general welfare of its citizens and the planning for the future development of the region. It does not have any legislative or taxing authority. The region served includes Bosque, Falls, Freestone, Hill, Limestone and McLennan Counties of Texas.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of HOTCOG. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or identifiable activity. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Council considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Grant revenue, membership dues and interest are susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Council.

HOTCOG reports the following major governmental funds:

The **General Fund** is HOTCOG'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 **Texas Department of Aging and Disability Services Fund** is used to account for federal and state grants awarded to HOTCOG by the Texas Department of Aging and Disability Services.

The **Texas Department of Transportation Fund** is used to account for federal and state grants awarded to HOTCOG by the Texas Department of Transportation.

The **U. S. Department of Homeland Security Fund** is used to account for the federal grants awarded to Heart of Texas Council of Governments from the U. S. Department of Homeland Security.

The **Commission on State Emergency Communications Fund** is used to account for the state grants awarded to Heart of Texas Council of Governments from the Texas Commission on State Emergency Communications.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Assets, Liabilities and Net Assets or Equity

Cash and Investments

Cash in HOTCOG's financial statements includes amounts in demand deposits.

Authorized investments include obligations of the United States, or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies; obligations of states, agencies and other local governments having an investment rating of not less than A or its equivalent; certificates of deposit that are guaranteed by the Federal Deposit Insurance Corporation and other investments authorized by statutes governing public funds investment pools.

Due from Grantor Agencies

Due from Grantor Agencies represents amounts due from federal and state agencies for the various programs administered by HOTCOG. The receivable includes amounts due on programs closed-out and those in progress as of September 30, 2010.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds are eliminated in the Statement of Net Assets.

Deferred Revenue

Deferred revenue represents amounts received from grantors in excess of expenditures for programs in progress as of September 30, 2010.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by HOTCOG as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred.

Equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Equipment	3 - 7

Compensated Absences

Employees in regular fulltime positions with less than three years of service accumulate annual leave at a rate of one day per month. Employees with more than 3 years, but less than 10 years of service accumulate annual leave at a rate of 15 days per year. Employees with 10 or more years of service accumulate leave at a rate of 20 days per year. Employees may accumulate up to 45 days annual leave. Leave of more than 45 days must be taken in the year accumulated.

However, employees who have 15 or more years of service and who have reached the maximum of 45 days of accrued vacation may be paid for up to 2 weeks of accumulated unused vacation time on December 31st, if the Executive Director determines that it is warranted and in the best interest of HOTCOG.

Employees in regular full-time and regular part-time positions accumulate sick leave at the rate of one day per month. Employees may accumulate up to 45 days of sick leave. There is no liability for accumulated unpaid sick leave since HOTCOG does not have a policy to pay any amounts when employees separate from services with HOTCOG.

All vacation pay is 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.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(continued)

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

F. Indirect Costs

General and administrative costs are recorded in the General Fund as indirect costs in the HOTCOG accounting system and allocated to special revenue funds based upon a negotiated indirect cost rate. Indirect costs are defined by Office of Management and Budget (OMB) Circular A-87, Attachment "A" as costs "(a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved." HOTCOG's indirect cost rate is based upon prior cost experience, documented by a cost allocation plan, and is approved by a state cognizant agency. It is HOTCOG's policy to negotiate with the cognizant agency a provisional rate which is used for billing purposes during HOTCOG's fiscal year. Upon the completion of an independent audit at the end of each fiscal year, the indirect cost rate is finalized with the cognizant agency.

G. Matching Funds

In accordance with the terms and provisions of various grant contracts, HOTCOG is required to provide a specified percentage of local matching funds to support certain grant programs.

2. **BUDGETARY INFORMATION**

HOTCOG's financial plan is controlled at the fund and grant level with management authorized to make transfers of budgeted amounts between object class levels within a fund or grant, within restrictions imposed by grantor agencies. The Executive Committee approves the financial plan for revenue and expenditures in all funds. The financial plan for the Special Revenue Funds is made on a project (grant) basis, spanning more than one year. Appropriations for all projects in the Special Revenue Funds lapse at the end of a contract period which may not coincide with the fiscal year-end of HOTCOG. The appropriations for the General Fund lapse at the fiscal year-end. Although the financial plans are reviewed and approved by HOTCOG's Executive Committee, they are not considered legally adopted annual budgets or appropriations. Accordingly, comparative budget and actual results are not presented in this report.

3. **DETAILED NOTES ON ALL FUNDS**

Cash and Investments

As of September 30, 2010, the Council had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ <u>472,711</u>	30

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Cash and Investments (Continued)

The Council's investment pool is 2a7-like pool. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk. In accordance with its investment policy, the Council manages its exposure to declines in fair market values by limiting the weighted average maturity of the investment portfolios to a maximum of 180 days.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2010, the Council's \$117,018 deposit balance was covered by FDIC insurance.

Credit Risk. It is the Council's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The Council's investment pool was rated AAAM by Standard & Poor's Investors Service.

Capital Assets

Capital asset activity for the year ended September 30, 2010, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 690,000	\$ -	\$ -	\$ 690,000
Total capital assets not being depreciated	<u>690,000</u>	<u>-</u>	<u>-</u>	<u>690,000</u>
Capital assets, being depreciated:				
Buildings and improvements	2,810,000	-	-	2,810,000
Machinery and equipment	<u>1,449,018</u>	<u>1,365,629</u>	<u>-</u>	<u>2,814,647</u>
Total capital assets being depreciated	<u>4,259,018</u>	<u>1,365,629</u>	<u>-</u>	<u>5,624,647</u>
Less accumulated depreciation:				
Buildings and improvements	456,000	70,250	-	526,250
Machinery and equipment	<u>1,220,207</u>	<u>137,675</u>	<u>-</u>	<u>1,357,882</u>
Total accumulated depreciation	<u>1,676,207</u>	<u>207,925</u>	<u>-</u>	<u>1,884,132</u>
Total capital assets, being depreciated, net	<u>2,582,811</u>	<u>1,157,704</u>	<u>-</u>	<u>3,740,515</u>
Governmental activities capital assets, net	<u>\$ 3,272,811</u>	<u>\$ 1,157,704</u>	<u>\$ -</u>	<u>\$ 4,430,515</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 85,081
Transportation	85,065
Economic development	5,572
Homeland security	<u>4,340</u>
 Total depreciation expense - governmental activities	 \$ <u>180,058</u>

Interfund Receivables and Payables

HOTCOG uses a pooled cash account. All expenditures are paid out of this cash account, and appropriate interfund balances are recorded to reflect this activity. The composition of interfund balances as of September 30, 2010, is as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ -	\$ 7,530
Commission on State Emergency Communications	139,184	-
Texas Department of Aging and Disability Services	70,286	-
Texas Department of Transportation	-	84,167
Texas Criminal Justice Division	-	54,137
Other governmental funds	<u>55,722</u>	<u>119,358</u>
	<u>\$ 265,192</u>	<u>\$ 265,192</u>

Capital Leases

HOTCOG has entered into certain capital lease agreements under which the related equipment will become the property of HOTCOG when all terms of the lease agreements are met. Leased equipment under capital assets at September 30, 2010, include the following:

Equipment	\$ 33,788
Less: accumulated depreciation	<u>27,030</u>
 Net	 \$ <u>6,758</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

A summary of long-term liability activity for the year ended September 30, 2010, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due in One Year</u>
Governmental activities:					
Notes payable	\$ 2,858,445	\$ -	\$ 169,394	\$ 2,689,051	\$ 170,033
Capital leases	10,230	-	10,230	-	-
Compensated absences payable	<u>62,866</u>	<u>82,204</u>	<u>78,206</u>	<u>66,864</u>	<u>16,716</u>
	<u>\$ 2,931,541</u>	<u>\$ 82,204</u>	<u>\$ 257,830</u>	<u>\$ 2,755,915</u>	<u>\$ 186,749</u>

Notes Payable

HOTCOG was assigned notes payable from the Heart of Texas Economic Development District for the purchase of land and a building. The following is a schedule of the future minimum payments under these agreements:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 170,033	\$ 162,463	\$ 332,496
2012	181,100	151,396	332,496
2013	193,782	138,714	332,496
2014	205,644	125,594	331,238
2015	143,046	114,317	257,363
2016-2019	666,915	362,540	1,029,455
2020-2024	1,096,598	190,220	1,286,818
2025-2029	<u>31,933</u>	<u>306</u>	<u>32,239</u>
Total	<u>\$ 2,689,051</u>	<u>\$ 1,245,550</u>	<u>\$ 3,934,601</u>

Risk Management

HOTCOG is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. HOTCOG maintains workers' compensation and other risks of loss coverage through commercial insurance carriers. HOTCOG management believes such coverage is sufficient to preclude any significant uninsured losses to HOTCOG.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Contingencies

HOTCOG contracts with local governments or other local delegate agencies to perform the specific services set forth in certain grant agreements. HOTCOG disburses grant funds to the delegate agencies based on monthly expenditure reports received from each delegate agency.

Each delegate agency is required to have an independent audit at least once every two years. HOTCOG requires each delegate agency to submit a copy of the audit reports. If such audits disclose expenditures not in accordance with terms of the grants, the grantor agency could disallow the costs and require reimbursement of the disallowed costs either from HOTCOG or the delegate agency. HOTCOG generally has the right of recovery from the delegate agency.

Some of the audits of the delegate agencies' expenditures for the year ended September 30, 2010, have not been completed. Based on prior experience, HOTCOG management believes that HOTCOG will not incur significant losses from possible grant disallowances.

Retirement Plan

All regular full-time employees of HOTCOG are included in a Simplified Employees' Pension Plan (the "*Plan*"), a defined contribution plan under Section 408(K) of the Internal Revenue Code. Under such plan, HOTCOG is not required to make any contributions to the Plan in a given year. HOTCOG contributed seven percent of each employee's annual salary during the year ended September 30, 2010, to an Individual Retirement Account for each covered employee. Employees may participate immediately and are fully vested immediately. Accordingly, HOTCOG has no fiduciary responsibility after the deposits are made. HOTCOG's contributions to the Plan were \$95,561 for the fiscal year ended September 30, 2010. Employees may not contribute to the Plan. HOTCOG's contributions were based on a covered payroll of \$1,365,157.

Due to HOTEDD

The amount shown as due to HOTEDD in the financial statements, of \$278,790 is owed to the Heart of Texas Economic Development District under the terms of a lease purchase agreement. Under the terms of the agreement, rental revenues received by HOTCOG for the rental of a building are first used to pay related debt service payments, insurance and maintenance costs. Any remaining rental receipts are owed to HOTEDD and must be used by HOTEDD for economic development projects.

COMBINING STATEMENTS

HEART OF TEXAS COUNCIL OF GOVERNMENTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	<u>Texas Criminal Justice Division</u>	<u>Texas Health and Human Services Commission</u>	<u>U. S. Department of Housing and Urban Development</u>	<u>Texas Commission on Environmental Quality</u>
ASSETS				
Due from other funds	\$ -	\$ -	\$ -	\$ 14,729
Due from grantor agencies	<u>93,797</u>	<u>73,428</u>	<u>6,247</u>	<u>19,194</u>
Total assets	<u>\$ 93,797</u>	<u>\$ 73,428</u>	<u>\$ 6,247</u>	<u>\$ 33,923</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,412	\$ 2,002	\$ 335	\$ 1,509
Due to other funds	54,137	3,560	5,912	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,414</u>
Total liabilities	<u>55,549</u>	<u>5,562</u>	<u>6,247</u>	<u>33,923</u>
Fund balances:				
Unreserved and undesignated	<u>38,248</u>	<u>67,866</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 93,797</u>	<u>\$ 73,428</u>	<u>\$ 6,247</u>	<u>\$ 33,923</u>

Texas Department of State Health Services	U. S. Department of Commerce	Total Governmental Funds
\$ 40,993	\$ -	\$ 55,722
-	31,198	223,864
\$ 40,993	\$ 31,198	\$ 279,586
\$ -	\$ 655	\$ 5,913
-	30,543	94,152
80	-	32,494
80	31,198	132,559
40,913	-	147,027
\$ 40,993	\$ 31,198	\$ 279,586

HEART OF TEXAS COUNCIL OF GOVERNMENTS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Texas Criminal Justice Division</u>	<u>Texas Health and Human Services Commission</u>	<u>U. S. Department of Housing and Urban Development</u>	<u>Texas Commission on Environmental Quality</u>
REVENUES				
Federal	\$ 94,447	\$ -	\$ 70,736	\$ -
State	183,072	445,672	-	200,110
Program income/in-kind match	-	20,000	-	-
Local funds	-	-	5,361	-
Investment income	-	-	-	417
Total revenues	<u>277,519</u>	<u>465,672</u>	<u>76,097</u>	<u>200,527</u>
EXPENDITURES				
Current:				
Health and human services	-	448,581	-	-
Environmental quality	-	-	-	200,527
Criminal justice	177,479	-	-	-
Community development	-	-	86,788	-
Economic development	-	-	-	-
Total expenditures	<u>177,479</u>	<u>448,581</u>	<u>86,788</u>	<u>200,527</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>100,040</u>	<u>17,091</u>	<u>(10,691)</u>	<u>-</u>
OTHER FINANCING SOURCES				
Transfers in	-	-	10,691	-
Transfers out	<u>(64,077)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>(64,077)</u>	<u>-</u>	<u>10,691</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	35,963	17,091	-	-
FUND BALANCES, BEGINNING	<u>2,285</u>	<u>50,775</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 38,248</u>	<u>\$ 67,866</u>	<u>\$ -</u>	<u>\$ -</u>

Texas Department of State Health Services	U. S. Department of Commerce	Total Governmental Funds
\$ 185,688	\$ 61,814	\$ 412,685
-	-	828,854
-	-	20,000
-	-	5,361
-	-	417
<u>185,688</u>	<u>61,814</u>	<u>1,267,317</u>
185,688	-	634,269
-	-	200,527
-	-	177,479
-	-	86,788
-	<u>121,657</u>	<u>121,657</u>
<u>185,688</u>	<u>121,657</u>	<u>1,220,720</u>
-	<u>(59,843)</u>	<u>46,597</u>
-	59,843	70,534
-	-	<u>(64,077)</u>
-	<u>59,843</u>	<u>6,457</u>
-	-	53,054
<u>40,913</u>	-	<u>93,973</u>
<u>\$ 40,913</u>	<u>\$ -</u>	<u>\$ 147,027</u>

SUPPLEMENTAL SCHEDULES

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

YEAR ENDED SEPTEMBER 30, 2010

	<u>Actual</u>	<u>Budget</u>
Wages and salaries	\$ 253,827	\$ 298,275
Benefits	<u>98,916</u>	<u>116,229</u>
	<u>352,743</u>	<u>414,504</u>
Accounting and audit	26,250	25,000
Computer costs	62,033	37,000
Consumable supplies	6,896	4,000
Dues and subscriptions	15,454	16,000
Insurance and bonding	3,249	3,500
Legal	1,314	1,000
Contractual	2,982	-
Communications	5,012	4,300
Postage and freight	9,061	10,000
Printing	5,869	6,800
Space	101,944	97,389
Travel	8,351	7,500
Other	<u>1,931</u>	<u>6,000</u>
TOTAL INDIRECT EXPENDITURES	603,089	632,993
LESS HEART OF TEXAS ECONOMIC DEVELOPMENT DISTRICT MANAGEMENT FEE CONTRACT	(39,393)	(39,393)
ADJUSTED INDIRECT COSTS	<u>\$ 563,696</u>	<u>\$ 593,600</u>
BASIS FOR ALLOCATION OF INDIRECT COSTS		
Total salaries and release time benefits	<u>\$ 1,293,889</u>	<u>\$ 1,237,757</u>
INDIRECT RATE	43.57%	47.96%

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FRINGE BENEFITS

YEAR ENDED SEPTEMBER 30, 2010

	2010	
	<u>Actual</u>	<u>Budget</u>
Payroll taxes	\$ 101,148	\$ 103,268
Group insurance	191,081	162,273
Retirement contribution	95,561	92,867
Release time	184,270	160,951
Prior period carryforward	<u>-</u>	<u>(56,057)</u>
TOTAL FRINGE BENEFITS	\$ <u>572,060</u>	\$ <u>463,302</u>
TOTAL WAGES	\$ 1,184,887	\$ 1,188,959
EMPLOYEE BENEFIT RATE	48.28%	38.97%
FRINGE BENEFITS RECOVERED	<u>461,748</u>	
OVER (UNDER) RECOVERED		
TO BE RECAPTURED IN FISCAL YEAR 2011	\$ <u>(110,312)</u>	

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES BY OBJECT

SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Texas Department of Aging and Disability Services	Texas Department of State Health Services	Texas Criminal Justice Division	U. S. Department of Housing and Urban Development	Texas Department of Transportation
EXPENDITURES					
Salaries and benefits	\$ 386,754	\$ 1,816	\$ 14,960	\$ 46,815	\$ 173,940
Delegate agency	2,244,148	-	85,153	-	2,184,207
Contractual services	39,881	30,760	31,124	10,738	18,828
Supplies and materials	21,938	152,150	5,625	2,253	17,204
Travel	40,871	23	7,184	1,455	17,352
Office space	59,472	129	8,356	3,353	17,350
Repairs and maintenance	-	-	-	-	127,544
Utilities/telephone	7,692	19	1,302	322	2,427
Other	15,807	-	1,561	1,457	42,946
Indirect cost allocation	<u>168,366</u>	<u>791</u>	<u>22,214</u>	<u>20,395</u>	<u>75,779</u>
 Total expenditures	 <u>\$ 2,984,929</u>	 <u>\$ 185,688</u>	 <u>\$ 177,479</u>	 <u>\$ 86,788</u>	 <u>\$ 2,677,577</u>

<u>Texas Commission on Environmental Quality</u>	<u>Commission on State Emergency Communications</u>	<u>U. S. Department of Commerce</u>	<u>U. S. Department of Homeland Security</u>	<u>Texas Health and Human Services Commission</u>	<u>Total</u>
\$ 34,991	\$ 126,631	\$ 65,002	\$ 140,999	\$ 265,958	\$ 1,257,866
123,958	543,506	-	66,785	-	5,247,757
4,000	-	-	84,411	9,616	229,358
4,412	149,351	4,810	35,870	2,318	395,931
2,715	10,636	9,659	14,990	1,908	106,793
5,269	24,793	8,734	16,749	38,748	182,953
-	201,677	-	-	-	329,221
673	2,749	1,750	4,143	3,089	24,166
9,265	4,648	3,257	9,817	11,077	99,835
<u>15,244</u>	<u>55,168</u>	<u>28,445</u>	<u>61,427</u>	<u>115,867</u>	<u>563,696</u>
<u>\$ 200,527</u>	<u>\$ 1,119,159</u>	<u>\$ 121,657</u>	<u>\$ 435,191</u>	<u>\$ 448,581</u>	<u>\$ 8,437,576</u>

SINGLE AUDIT SECTION



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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Heart of Texas Council of Governments as of and for the year ended September 30, 2010, which collectively comprise the Council's basic financial statements and have issued our report thereon dated January 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Council in a separate letter dated January 14, 2011.

This report is intended solely for the information and use of the executive committee, management, others within the entity, and appropriate federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ravillo, Brown & Hill, LLP

January 14, 2011



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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND THE STATE OF TEXAS UNIFORM
GRANT MANAGEMENT STANDARDS**

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

Compliance

We have audited the compliance of Heart of Texas Council of Governments (the "Council") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Council's major federal and state programs for the year ended September 30, 2010. The Council's major federal and state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations* and the *State of Texas Uniform Grant Management Standards ("UGMS")*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal and state program occurred. An audit includes examining on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council's compliance with those requirements.

In our opinion, the Council complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended September 30, 2010.

Internal Control Over Compliance

The management of Heart of Texas Council of Governments is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal or state 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 or state program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Executive Committee, management, others within the Council, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, LLP

January 14, 2011

HEART OF TEXAS COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS			
<u>U. S. Department of Commerce</u>			
Direct Program:			
Continuation Planning Assistance	11.302	08-83-04340	\$ 61,814
Total U. S. Department of Commerce			<u>61,814</u>
<u>U. S. Department of Housing and Urban Development</u>			
Passed through the City of Waco:			
Community Development Block Grant	14.218	232-4306	32,732
Total City of Waco			<u>32,732</u>
Direct Program:			
HMIS Continuum of Care	14.235	TX01B604003	35,520
HMIS Continuum of Care	14.235	TX01B304001	2,484
Total Direct Program			<u>38,004</u>
Total U. S. Department of Housing and Urban Development			<u>70,736</u>
<u>U. S. Department of Justice</u>			
Passed through the State of Texas Governor's Office:			
Byrne Justice Assistance Grant - ARRA	16.803	300-9-2890	43,307
2010 Purchase of Juvenile Justice Alternatives	16.540	JA-09-J20-14241-11	50,583
2011 Purchase of Juvenile Justice Alternatives	16.540	JA-00-J20-14241-12	557
Total State of Texas Governor's Office			<u>94,447</u>
Total U. S. Department of Justice			<u>94,447</u>
<u>U. S. Department of Transportation</u>			
Passed through Texas Department of Transportation:			
2010 Federal Transit Capital Investment Grant	20.500	51909F7106	85,228
2011 Public Transportation Section 5311	20.509	51009F7158	14,638
2009 Rural Public Transportation Section 5311	20.509	51809F7101	236,351
2010 Rural Public Transportation Section 5311	20.509	51909F7153	461,730
2011 Rural Public Transportation Section 5311	20.509	51009F7022	65,348
2010 Rural Public Transportation Section 5311 - ARRA	20.509	51909F7291	987,376
2011 Rural Public Transportation Section 5311 - ARRA	20.509	51009F7103	3,812
2010 Public Transportation Section 5310	20.513	51909F7256	76,488
2011 Regional Coordination Project	20.515	510XXF7012	9,121
Job Access Reverse Commute - Urban	20.516	51009F7180	41,177
Job Access Reverse Commute - Non-Urban	20.516	51009F7181	23,248
Total Texas Department of Transportation			<u>2,004,517</u>
Total U. S. Department of Transportation			<u>2,004,517</u>

The accompanying notes are an integral part of this schedule.

HEART OF TEXAS COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
YEAR ENDED SEPTEMBER 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS (Continued)			
<u>U. S. Department of Health and Human Services</u>			
Passed through Texas Department of Aging and Disability Services:			
2009 Title VII EAP	93.041	5390801530001	\$ 5,400
2009 Title VII OAG	93.042	5390801530001	33,909
2009 Title III D	93.043	5390801530001	26,751
2009 Title III B	93.044	5390801530001	485,173
2008 Title III C	93.045	5390801530001	3,937
2009 Title III C	93.045	5390801530001	760,674
2009 Title III E	93.052	5390801530001	40,821
Nutrition Service Incentive Program	93.053	5390801530001	208,967
Home Delivered C2 - ARRA	93.705	5390801530001	35,630
Home Delivered C1 - ARRA	93.707	5390801530001	72,995
Center for Medicaid/Medicare Service	93.779	5390801530001	55,089
Total Texas Department of Aging and Disability Services			<u>1,729,346</u>
Passed through the Texas Department of State Health Services:			
2009 Bioterrorism	93.283	2009-031136	<u>185,688</u>
Total Texas Department of State Health Services			<u>185,688</u>
Total U. S. Department of Health and Human Services			<u>1,915,034</u>
<u>U. S. Department of Homeland Security</u>			
Passed through Texas Department of Public Safety:			
Interoperable Emergency Communication Grant	97.001	2008-IO-T8-0040	90,313
Interoperable Emergency Communication Grant	97.001	2009-1P-T9-0014	20,015
2007 Homeland Security Grant Program	97.067	07-GA 99011-07	90,109
2006 Homeland Security Grant Program	97.067	06-GA 99011-04	4,943
2009 Homeland Security Grant Program	97.067	2009-SS-T9-0064	7,622
2008 Homeland Security Grant Program	97.067	08-GA 99011-06	222,189
Total Texas Department of Public Safety			<u>435,191</u>
Total U. S. Department of Homeland Security			<u>435,191</u>
Total Federal Awards			<u>\$ 4,581,739</u>

The accompanying notes are an integral part of this schedule.

HEART OF TEXAS COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
YEAR ENDED SEPTEMBER 30, 2010

State Grantor/ Grant Description	Pass-through Grantor's Number	Expenditures
STATE AWARDS		
<u>Texas Commission on Environmental Quality</u>		
Air Quality Planning Grant	582-10-97016	\$ 19,194
2009 Solid Waste Planning	582-6-78037	11,369
2010 Solid Waste Planning	582-10-91886	<u>169,547</u>
Total Texas Commission on Environmental Quality		<u>200,110</u>
<u>Texas Governor's Office, Criminal Justice Division</u>		
2009 Regional Law Enforcement Training	SF-10-A10-17847-05	33,009
2010 Regional Law Enforcement Training	SF-09-A10-17847-06	4,158
2009 CJD State Planning Assistance	2062903	59,152
2008 CJD State Planning Assistance	2062904	4,925
2010 Regional Planning	30000475	75,273
2011 Regional Planning	30010628	<u>6,555</u>
Total Texas Governor's Office, Criminal Justice Division		<u>183,072</u>
<u>Texas Department of Aging and Disability Services</u>		
2009 SGR-Title III-E Match	5390801530001	43,658
2009 State General Revenue	5390801530001	<u>67,652</u>
Total Texas Department of Aging and Disability Services		<u>111,310</u>
<u>Commission on State Emergency Communications</u>		
2009-911 Emergency Communications	N/A	483,202
2010-911 Emergency Communications	N/A	595,601
2011-911 Emergency Communications	N/A	<u>39,765</u>
Total Commission on State Emergency Communications		<u>1,118,568</u>

The accompanying notes are an integral part of this schedule.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
YEAR ENDED SEPTEMBER 30, 2010**

State Grantor/ Grant Description	Pass-through Grantor's Number	Expenditures
STATE AWARDS (Continued)		
<u>Texas Department of Transportation</u>		
2009 Section 5311 Transportation	51009F7022	\$ 358,364
2008 Section 5311 Transportation	51909F7022	116,200
2010 Section 5311 Transportation	51109F7021	40,303
RTAP Peer Review	51951F7239	3,517
RTAP Scholarship	N/A	<u>3,673</u>
Total Texas Department of Transportation		<u>522,057</u>
<u>Texas Health and Human Services Commission</u>		
2010 211 Area Information	529-07-0105-00013B	377,505
2011 211 Area Information	529-07-0105-00013	37,773
H1N1	529-07-0105-00013E	<u>30,394</u>
Total Texas Health and Human Services Commission		<u>445,672</u>
<u>Texas Association of Regional Councils</u>		
Falls Prevention Contract	N/A	<u>3,080</u>
Total Texas Association of Regional Councils		<u>3,080</u>
 Total State Awards		 <u>\$ 2,583,869</u>

The accompanying notes are an integral part of this schedule.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

SEPTEMBER 30, 2010

1. GENERAL

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards programs of the Heart of Texas Council of Governments. The Council's reporting entity is defined in Note 1 of the basic financial statements. Federal and state awards received directly from federal and state agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal and State Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* and *the State of Texas Single Audit Circular*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? None

Federal and State Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? None

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
#93.044, 93.045, 93.053, 93.705, 93.707	Aging Cluster
#97.067	Homeland Security
#20.509	Section 5311 Transportation
State	911 Emergency Communications
State	Section 5311 Transportation
State	211 Area Information

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee for federal single audit? No

Auditee qualified as low-risk auditee for state single audit? Yes

Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal and State Awards

None

HEART OF TEXAS COUNCIL OF GOVERNMENTS

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

FOR THE YEAR ENDED SEPTEMBER 30, 2010

None