

**HEART OF TEXAS COUNCIL
OF GOVERNMENTS**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Heart of Texas Council of Governments (the "Council"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Heart of Texas Council of Governments, as of September 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and pension information on pages 29 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The supplementary information as listed in the table of contents and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents and the Schedule of Expenditures of Federal and State Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2017, 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 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 Council's internal control over financial reporting and compliance.

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

Waco, Texas
June 21, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

This section of the Heart of Texas Council of Governments' (the "Council") annual report offers a narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2016. 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 the Council exceeded its liabilities and deferred outflows of resources as of September 30, 2016, by \$1,535,378 (net position). Of this amount, \$249,204 represents the balance of unrestricted net position for the Council.
- The Council's total net position increased by \$39,030 during the fiscal year.
- As of the close of the current fiscal year, the Council's governmental fund reported an ending fund balance of \$403,866, an increase of \$64,948 in comparison with the prior year.
- As of September 30, 2016, unassigned fund balance in the General Fund was \$271,680 .

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Council'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 the Council's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Council's assets and deferred outflows of resources and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the Council.

The Statement of Activities presents information showing how the Council's net position changed during the fiscal year. All changes in net position 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 10 through 11 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. The Council, 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.

The Council maintains only one governmental fund, the General Fund.

The Council's Board approves a financial plan for revenue and expenditures. Although the financial plan is reviewed and approved by the Council's Board, it is not considered a legally adopted annual budget or appropriation. Accordingly, comparative budget and actual results are not presented in this report.

The basic governmental fund financial statements can be found on pages 12 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 immediately following the governmental fund financial statements.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Council's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found immediately following the notes to the financial statements.

In addition to the required supplementary information, this report also includes other supplementary information including indirect costs and fringe benefit schedules as well as an additional schedule of expenditures by object. Other supplementary information can be found immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the Council's case, assets and deferred outflows of resources exceeded liabilities by \$1,535,378 as of September 30, 2016.

HEART OF TEXAS COUNCIL OF GOVERNMENTS' NET POSITION

	Governmental Activities	
	2016	2015
Current assets	\$ 1,558,570	\$ 1,259,468
Capital assets	<u>2,962,597</u>	<u>3,236,638</u>
Total assets	<u>4,521,167</u>	<u>4,496,106</u>
 Deferred outflows of resources	 <u>75,852</u>	 <u>-</u>
 Current liabilities	 1,158,075	 924,264
Other liabilities	<u>1,903,566</u>	<u>2,075,494</u>
Total liabilities	<u>3,061,641</u>	<u>2,999,758</u>
 Net position:		
Net investment in capital assets	1,155,050	1,245,371
Restricted for:		
Federal and state programs	131,124	223,817
Transportation projects	-	90,798
Unrestricted	<u>249,204</u>	<u>(63,638)</u>
 Total net position	 <u>\$ 1,535,378</u>	 <u>\$ 1,496,348</u>

A large portion of the Council's net position reflects its investment in capital assets. The Council uses these assets to provide services; consequently, these values are not available for spending. Of the remaining balance, \$131,124 is restricted and can be used only for certain purposes.

The Council's total assets increased by \$25,061 during the year. Total liabilities increased by \$61,883 (1%). This was primarily due to an increase in unearned revenue from the prior year. Most of the increase was in the Texas Commission on State Emergency Communications (CSEC) program and Air Quality program.

Analysis of the Council's Operations – The following table provides a summary of the Council's operations for the year ended September 30, 2016.

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

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 403,439	\$ 426,086
Operating grants and contributions	6,570,259	7,167,275
Capital grants and contributions	-	84,235
General revenues:		
Membership dues	57,881	57,861
Unrestricted investment income	1,906	-
Miscellaneous	2,964	49,689
Total revenues	<u>7,036,449</u>	<u>7,785,146</u>
Expenses after allocation of indirect costs:		
General government	146,660	341,389
Aging	2,837,875	2,754,579
Transportation	1,490,195	1,733,692
Emergency communications	978,559	859,817
Homeland security	372,498	382,386
Health and human services	436,462	429,614
Environmental quality	353,040	401,370
Criminal justice	119,856	134,581
Community development	15,172	564,847
Economic development	168,651	138,892
Interest on long-term debt	78,451	84,171
Total expenses after allocation of indirect costs	<u>6,997,419</u>	<u>7,825,338</u>
Change in net position	39,030	(40,192)
Net position, beginning	<u>1,496,348</u>	<u>1,536,540</u>
Net position, ending	<u>\$ 1,535,378</u>	<u>\$ 1,496,348</u>

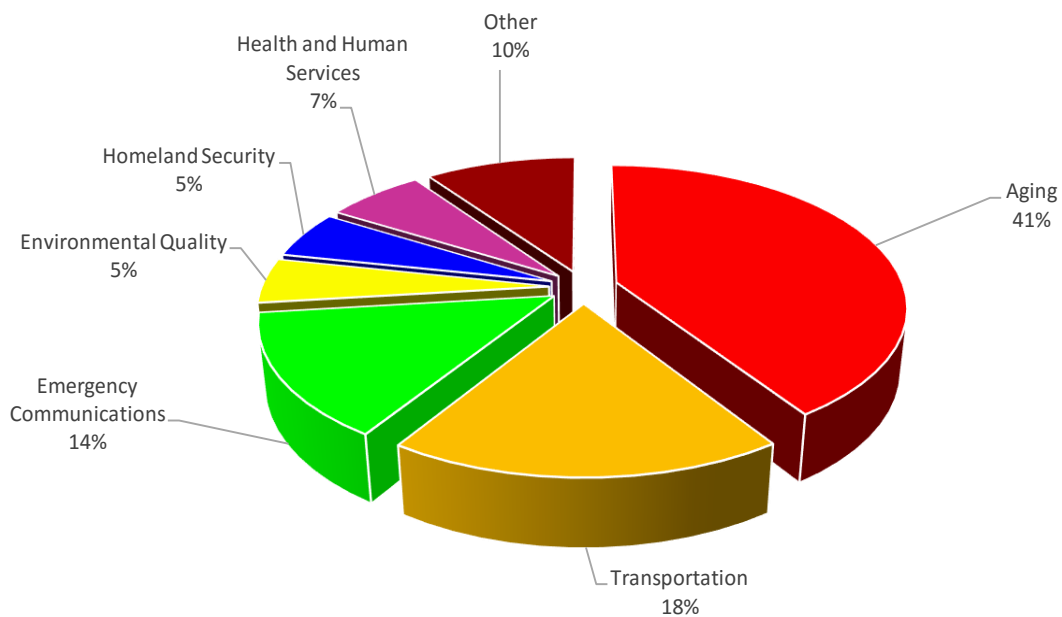
The Council experienced a decrease in revenues of \$748,697 or 10% from 2015. This can largely be attributed to decreases in funding in community development programs and transportation programs. Expenses also decreased by \$827,919 or 11% from the prior year. The Council's operations are driven primarily by federal and state grant funding, which can vary widely from year to year.

FINANCIAL ANALYSIS OF THE GENERAL FUND

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

At the end of the current fiscal year, the Council's governmental fund reported an ending fund balance of \$403,866, an increase of \$64,948 from the prior year.

Governmental Fund Expenditures by Function



CAPITAL ASSETS AND LONG-TERM DEBT

The Council's investment in capital assets for its governmental activities as of September 30, 2016, amounts to \$2,962,597 (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	
	2016	2015
Capital assets:		
Land	\$ 690,000	\$ 690,000
Buildings and improvements	2,810,000	2,810,000
Machinery and equipment	2,211,270	2,203,470
Less accumulated depreciation	(2,748,673)	(2,466,832)
Total capital assets, net of accumulated depreciation	\$ 2,962,597	\$ 3,236,638

There were no significant capital asset additions and no new debt issues during the year.

ECONOMIC FACTORS AND NEXT YEAR'S ANNUAL FINANCIAL PLAN

The Council is dependent on federal, state and local funding, which can vary widely from year to year. The federal and state economic condition and budget deficits can impact the reauthorization of funds available to local governments. It should be noted that the Council does not know of any significant factors that would affect the financial plan for fiscal year 2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Council'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

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 923,129
Receivables:	
Grantors	610,676
Other	23,703
Prepaid expenses	<u>1,062</u>
Total current assets	<u>1,558,570</u>
Noncurrent assets:	
Capital assets:	
Land	690,000
Buildings and improvements	2,810,000
Machinery and equipment	2,211,270
Less: accumulated depreciation	<u>(2,748,673)</u>
Total capital assets	<u>2,962,597</u>
Total noncurrent assets	<u>2,962,597</u>
Total assets	<u>4,521,167</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>75,852</u>
Total deferred outflows of resources	<u>75,852</u>
LIABILITIES	
Current liabilities:	
Accounts payable	275,180
Unearned revenue	436,902
Due to HOTEDD	408,940
Accrued liabilities	<u>37,053</u>
Total current liabilities	<u>1,158,075</u>
Noncurrent liabilities:	
Due within one year	276,483
Due in more than one year	<u>1,627,083</u>
Total noncurrent liabilities	<u>1,903,566</u>
Total liabilities	<u>3,061,641</u>
NET POSITION	
Net investment in capital assets	1,155,050
Restricted for federal and state programs	131,124
Unrestricted	<u>249,204</u>
Total net position	<u>\$ 1,535,378</u>

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

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses	Indirect Cost Allocation	Expenses After Allocation of Indirect Costs	Program Revenues		Net (Expense) Revenue and Changes in Net Position
				Charges for Services	Operating Grants and Contributions	
Governmental activities:						
General government	\$ 146,660	\$ -	\$ 146,660	\$ 403,439	\$ -	\$ 256,779
Aging	2,535,472	302,403	2,837,875	-	2,853,612	15,737
Transportation	1,409,091	81,104	1,490,195	-	1,293,705	(196,490)
Emergency communications	910,850	67,709	978,559	-	986,291	7,732
Homeland security	310,543	61,955	372,498	-	378,878	6,380
Health and human services	296,381	140,081	436,462	-	402,317	(34,145)
Environmental quality	317,576	35,464	353,040	-	351,566	(1,474)
Criminal justice	93,030	26,826	119,856	-	119,388	(468)
Community development	11,090	4,082	15,172	-	10,711	(4,461)
Economic development	123,642	45,009	168,651	-	173,791	5,140
Indirect costs	764,633	(764,633)	-	-	-	-
Interest on long-term debt	<u>78,451</u>	<u>-</u>	<u>78,451</u>	<u>-</u>	<u>-</u>	<u>(78,451)</u>
Total governmental activities	\$ <u>6,997,419</u>	\$ <u>-</u>	\$ <u>6,997,419</u>	\$ <u>403,439</u>	\$ <u>6,570,259</u>	(23,721)

General revenues:

Membership dues	57,881
Unrestricted investment income	1,906
Miscellaneous income	<u>2,964</u>
Total general revenues	<u>62,751</u>
Change in net position	39,030

Net position, beginning 1,496,348

Net position, ending \$ 1,535,378

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

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

	<u>General</u>
ASSETS	
Cash and investments	\$ 923,129
Due from grantor agencies	610,676
Other receivables	23,703
Prepaid items	<u>1,062</u>
Total assets	<u>\$ 1,558,570</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 275,180
Unearned revenue	436,902
Due to HOTEDD	408,940
Accrued liabilities	<u>33,682</u>
Total liabilities	<u>1,154,704</u>
Fund balances:	
Nonspendable - prepaid items	1,062
Restricted for:	
Aging	2,856
Transportation	55,146
Criminal justice	41,906
Homeland security	1,469
Health and human services	29,747
Unassigned	<u>271,680</u>
Total fund balances	<u>403,866</u>
Total liabilities and fund balances	<u>\$ 1,558,570</u>

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. 2,962,597

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (1,906,937)

Deferred outflows of resources related to pensions are not current financial resources and, therefore, are not reported in the funds. 75,852

Net position of governmental activities \$ 1,535,378

HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General
REVENUES	
Federal	\$ 2,889,775
State	2,467,527
Program income/in-kind match	1,028,769
Rent	390,000
Local funds	183,597
Membership dues	57,881
Investment income	2,497
Miscellaneous	16,403
Total revenues	<u>7,036,449</u>
EXPENDITURES	
Current:	
General government	72,297
Aging	2,856,389
Transportation	1,293,705
Emergency communications	986,291
Homeland security	378,408
Health and human services	452,458
Environmental quality	357,090
Criminal justice	122,920
Community development	15,638
Economic development	173,791
Debt service:	
Principal	183,720
Interest	78,794
Total expenditures	<u>6,971,501</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	64,948
FUND BALANCES, BEGINNING	<u>338,918</u>
FUND BALANCES, ENDING	<u>\$ 403,866</u>

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

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, 2016

Net change in fund balances - total governmental funds:	\$ 64,948
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. This is the amount that depreciation expense exceeded capital outlay for the year.	(274,041)
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.	183,720
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.	<u>64,403</u>
Change in net position of governmental activities	\$ <u><u>39,030</u></u>

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Heart of Texas Council of Governments (the "Council") 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

The Council 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 the Council 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.

The Council does not have any component units required to be included within its financial reporting entity.

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 activities of the Council.

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.

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, rent 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.

The Council reports the following major governmental funds:

The **General Fund** is the Council's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

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, Deferred Inflows and Outflows of Resources, Liabilities and Equity

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.

Due from Grantor Agencies

Due from grantor agencies represents amounts due from federal and state agencies for the various programs administered by the Council. The receivable includes amounts due on programs closed-out and those in progress as of September 30, 2016.

Unearned Revenue

Unearned revenue represents amounts received from grantors in excess of qualifying expenditures for programs in progress as of September 30, 2016.

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Council 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.

Assets are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40
Machinery and 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 the Council.

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 the Council does not have a policy to pay any amounts when employees separate from services with the Council.

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 Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Council is bound to honor constraints on the specific purposes for which amounts in the respective

governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by the Council's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Executive Committee removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Executive Committee.
- **Unassigned:** This classification includes the residual fund balance for the General Fund.

Fund Balance Flow Assumption

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

Net Position Flow Assumption

Sometimes the Council will fund outlays for a particular purpose from both restricted (e.g., restricted 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 Council's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element,

deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Council has the following items that qualify for reporting in this category.

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.
- Changes in economic and demographic assumptions or other inputs included in determining the pension liability – these effects on the total pension liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active and inactive employees).
- The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Council has no items that qualify for reporting in this category at fiscal year-end.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCDRS's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. . For this purpose, 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.

F. Indirect Costs

General and administrative costs are recorded in the General Fund as indirect costs in the Council's accounting system and allocated to grants based upon a negotiated indirect cost rate. Indirect costs are defined 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."* the Council'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 the Council's policy to negotiate with the cognizant agency a provisional rate which is used for billing purposes during the Council'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, the Council is required to provide a specified percentage of local matching funds to support certain grant programs.

2. BUDGETARY INFORMATION

The Council'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. The financial plan is made on a project (grant) basis, spanning more than one year. Appropriations for all grant projects lapse at the end of a contract period which may not necessarily coincide with the fiscal year-end of the Council. Although the financial plans are reviewed and approved by the Council'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 Deposits with Financial Institutions

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 of the Council's 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, 2016, the Council's deposit balance was entirely covered by FDIC insurance.

Investments

The Council invests in a local government investment pool. As of September 30, 2016, the Council had the following investment:

<u>Investment Type</u>	<u>Net Asset Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Standard & Poor's Current Rating</u>
TexPool	\$ <u>954,903</u>	45	AAAm

TexPool 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.

Authorized investments for the Council 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.

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.

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. TexPool has a Standard & Poor's rating of AAAM.

Capital Assets

Capital asset activity for the year ended September 30, 2016, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	\$ 690,000	\$ -	\$ -	\$ 690,000
Total capital assets not being depreciated	690,000	-	-	690,000
Capital assets, being depreciated:				
Buildings and improvements	2,810,000	-	-	2,810,000
Machinery and equipment	2,203,470	7,800	-	2,211,270
Total capital assets being depreciated	5,013,470	7,800	-	5,021,270
Less accumulated depreciation:				
Buildings and improvements	877,500	70,250	-	947,750
Machinery and equipment	1,589,332	211,591	-	1,800,923
Total accumulated depreciation	2,466,832	281,841	-	2,748,673
Total capital assets, being depreciated, net	2,546,638	(274,041)	-	2,272,597
Governmental activities capital assets, net	\$ 3,236,638	\$ (274,041)	\$ -	\$ 2,962,597

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 71,810
Transportation	205,752
Aging	3,114
Homeland security	1,165
Total depreciation expense - governmental activities	\$ 281,841

Rental Revenue

The Council leases a building to the Heart of Texas Workforce Development Board under a cancelable operating lease. Rental revenues for the year ended September 30, 2016 were \$390,000.

Due to HOTEDD

The amount shown as Due to HOTEDD in the financial statements is owed to the Heart of Texas Economic Development District under the terms of an interlocal agreement. Under the terms of the agreement, rental revenues received by the Council 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.

Long-term Debt

A summary of long-term liability activity for the year ended September 30, 2016, 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	\$ 1,991,267	\$ -	\$ 183,720	\$ 1,807,547	\$ 191,361
Net pension liability	-	42,395	40,956	1,439	-
Compensated absences payable	<u>84,227</u>	<u>109,901</u>	<u>99,548</u>	<u>94,580</u>	<u>85,122</u>
	<u>\$ 2,075,494</u>	<u>\$ 152,296</u>	<u>\$ 324,224</u>	<u>\$ 1,903,566</u>	<u>\$ 276,483</u>

Notes Payable

The Council has issued two notes payable for the purchase of land, a building and related furnishings. The first note was issued in 2004 with an original amount of \$2,975,000, an interest rate of 3.95%, and a maturity date of 2025. The second note was issued in 2011 with an original amount of \$350,423, an interest rate of 3.95% and a maturity date of 2025.

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>
2017	191,361	69,041	\$ 260,402
2018	199,070	61,503	260,573
2019	207,247	53,326	260,573
2020	215,633	44,940	260,573
2021	224,617	35,956	260,573
2022-2025	<u>769,618</u>	<u>51,187</u>	<u>820,805</u>
Total	<u>\$ 1,807,547</u>	<u>\$ 315,953</u>	<u>\$ 2,123,499</u>

Operating Leases

The Council leases building facilities under a cancelable operating lease. Total cost for this lease was \$244,801 for the year ended September 30, 2016.

Risk Management

The Council is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council maintains workers' compensation and other risks of loss coverage through commercial insurance carriers. The Council management believes such coverage is sufficient to preclude any significant uninsured losses to the Council. There have been no significant reductions in insurance coverage from coverage in the prior year or settlements that have exceeded insurance coverage in the past three fiscal years.

Contingencies

The Council contracts with local governments or other local delegate agencies to perform the specific services set forth in certain grant agreements. The Council 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. The Council 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 the Council or the delegate agency. The Council 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, 2016, have not been completed. Based on prior experience, the Council management believes that the Council will not incur significant losses from possible grant disallowances.

4. DEFINED BENEFIT PENSION PLAN

Plan Description

The Council participates in a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent, multiple-employer, public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tcdrs.org.

All full time and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

Benefits Provided

TCDRS provides retirement, disability and survivor benefits for all of its eligible employees. Benefit terms are established by the TCDRS Act. The benefit terms may be amended as of January 1, each year, but must remain in conformity with the Act.

Members can retire at age 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 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. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. Updated annuity purchase rates will go into effect for post-2017 benefit accruals earned after 2017. Benefits accrued before 2018 will not be impacted by this update. This change was reflected in the 2015 actuarial valuation.

A summary of plan provisions for the Council are as follows:

Employee deposit rate	4%
Matching ratio (Council to employee)	2.5 to 1
Years required for vesting	10
Service retirement eligibility	30 years to any age, 10 years at age 60 and above

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>32</u>
	<u><u>34</u></u>

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 Council were required to contribute 4% of their annual gross earnings during the fiscal year. The contribution rate for the Council was 6.9%. The Council's contributions to

TCDRS for the year ended September 30, 2016, were \$99,680, and were equal to the required contributions.

Net Pension Liability

The Council's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	0% per year
Investment rate of return	8.0%, net of pension plan investment expense, including inflation

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

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

The actuarial assumptions that determined the total pension liability as of December 31, 2015, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except for mortality assumptions. Mortality assumptions were updated for the 2015 valuation to reflect projected improvements.

The long-term expected rate of return on pension plan investments is 8.0%. 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 application of the investment return assumption was changed for purposes of determining plan liabilities in the 2015 actuarial valuation. All plan liabilities are now valued using an 8% discount rate. Previously, some liabilities were valued using a 7% discount rate and others were valued using a 9% discount rate.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2016 information for a 7 to 10 year

time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

Asset Class	Benchmark	Allocation ⁽¹⁾	Inflation ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	5.45%
International Equities - Emerging	MSCI World Ex USA (net)	8.00%	6.45%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.80%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.25%

⁽¹⁾ Target asset allocation adopted at the April 2016 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.6% per Cliffwater's 2016 capital market assumptions.

⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	\$ -	\$ -	\$ -
Changes for the year:			
Service cost	40,741	-	40,741
Interest on total pension liability ⁽¹⁾	1,613	-	1,613
Effect of plan changes ⁽²⁾	(713)	-	(713)
Effect of economic/demographic gains or losses	171	-	171
Effect of assumptions changes or inputs	583	-	583
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	(15)	15
Member contributions	-	15,221	(15,221)
Net investment income	-	(351)	351
Employer contributions	-	26,103	(26,103)
Other ⁽³⁾	-	(2)	2
Balance at 12/31/2015	<u>\$ 42,395</u>	<u>\$ 40,956</u>	<u>\$ 1,439</u>

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

⁽³⁾ Relates to allocation of system-wide items.

Sensitivity Analysis

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

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 50,174	\$ 42,395	\$ 36,268
Fiduciary net position	<u>40,955</u>	<u>40,956</u>	<u>40,955</u>
Net pension liability/(asset)	<u>\$ 9,219</u>	<u>\$ 1,439</u>	<u>\$ (4,687)</u>

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the Council recognized pension expense of \$25,267.

At September 30, 2016, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ 152
Changes in actuarial assumptions	-	518
Net difference between projected and actual investment earnings	-	1,605
Contributions made subsequent to the measurement date	<u>-</u>	<u>73,577</u>
Total	<u>\$ -</u>	<u>\$ 75,852</u>

\$73,577 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2017	\$ 485
2018	485
2019	485
2020	485
2021	84
Thereafter	251

**REQUIRED
SUPPLEMENTARY
INFORMATION**

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Plan Year Ended December 31	2015
Total Pension Liability	
Service Cost	\$ 40,740
Interest total pension liability	1,614
Effect of plan changes	(713)
Effect of assumption changes or inputs	583
Effect of economic/demographic (gains) or losses	171
Benefit payments/refunds of contributions	-
Net change in total pension liability	42,395
Total pension liability - beginning	-
Total pension liability - ending (a)	\$ 42,395
Plan Fiduciary Net Position	
Employer contributions	\$ 26,103
Member contributions	15,221
Investment income net of investment expenses	(351)
Benefit payments refunds of contributions	-
Administrative expenses	(15)
Other	(2)
Net change in plan fiduciary net position	40,956
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending (b)	40,956
Net pension liability - ending (a) - (b)	\$ 1,439
Fiduciary net position as a percentage of total pension liability	97%
Pensionable covered payroll	\$ 1,522,022
Net pension liability as a percentage of covered payroll	0.1%

Information for the previous 9 years is not available. GASB 68 was implemented in fiscal year 2016. The Council enrolled in TCDRS in FY 2016.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2016	\$ 99,680	\$ 99,680	\$ -	\$ 1,444,644	6.9%

Information for the previous 9 years is not available. GASB 68 was implemented in fiscal year 2016. The Council enrolled in TCDRS in FY 2016.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Valuation Timing	Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which the contributions are reported.
<u>Methods and assumptions used to determine contributions rates:</u>	
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	19.9 years (based on contribution rate calculated in 12/31/2015 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

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SUPPLEMENTARY INFORMATION

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES BY OBJECT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Texas Department of Aging and Disability Services	Texas Criminal Justice Division	U. S. Department of Housing and Urban Development	Texas Department of Transportation	Texas Commission on Environmental Quality
EXPENDITURES					
Salaries	\$ 360,986	\$ 32,025	\$ 4,874	\$ 96,818	\$ 42,335
Benefits	185,801	16,482	2,507	49,831	21,789
Delegate agency	1,840,597	20,872	-	950,040	-
Contractual services	38,978	15,660	-	47,225	198,007
Supplies and materials	15,057	1,258	-	696	1,814
Travel	22,793	3,574	-	1,709	2,793
Office space	70,186	5,296	509	12,542	8,310
Repairs and maintenance	-	-	-	7,759	-
Utilities/telephone	6,490	897	126	12,697	1,346
Other	13,098	30	3,540	33,284	45,232
Debt service	-	-	-	-	-
Indirect cost allocation	<u>302,403</u>	<u>26,826</u>	<u>4,082</u>	<u>81,104</u>	<u>35,464</u>
Total expenditures	<u>\$ 2,856,389</u>	<u>\$ 122,920</u>	<u>\$ 15,638</u>	<u>\$ 1,293,705</u>	<u>\$ 357,090</u>

<u>Texas 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>Local</u>	<u>Total</u>
\$ 80,826	\$ 53,728	\$ 73,955	\$ 167,219	\$ -	\$ 912,766
41,601	27,654	38,069	86,067	-	469,801
759,178	-	-	-	-	3,570,687
1,983	490	76,427	-	-	378,770
3,909	3,254	95,612	2,775	-	124,375
5,173	7,524	8,181	2,768	-	54,515
21,500	16,383	18,791	20,998	-	174,515
-	-	-	-	43,270	51,029
2,878	2,125	2,698	1,433	-	30,690
1,534	17,624	2,720	31,117	29,027	177,206
-	-	-	-	262,514	262,514
<u>67,709</u>	<u>45,009</u>	<u>61,955</u>	<u>140,081</u>	<u>-</u>	<u>764,633</u>
<u>\$ 986,291</u>	<u>\$ 173,791</u>	<u>\$ 378,408</u>	<u>\$ 452,458</u>	<u>\$ 334,811</u>	<u>\$ 6,971,501</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

YEAR ENDED SEPTEMBER 30, 2016

	Budget	Actual	Variance
INDIRECT COSTS			
Salaries	\$ 339,315	\$ 354,972	\$(15,657)
Benefits	<u>174,632</u>	<u>182,731</u>	<u>(8,099)</u>
Total indirect salaries and benefits	<u>513,947</u>	<u>537,703</u>	<u>(23,756)</u>
Travel	11,000	16,742	(5,742)
Supplies	5,000	7,773	(2,773)
Legal fees	1,000	-	1,000
Audit	30,000	31,800	(1,800)
Space costs	114,347	113,946	401
Communications	4,000	3,941	59
Copies/printing	5,500	5,289	211
Computer costs	40,000	62,889	(22,889)
Postage	10,000	13,703	(3,703)
Insurance/bonding	3,500	3,136	364
Dues/subscriptions/publications	17,000	9,276	7,724
Other costs/miscellaneous	<u>3,500</u>	<u>5,472</u>	<u>(1,972)</u>
Total other indirect costs	<u>244,847</u>	<u>273,967</u>	<u>(29,120)</u>
Total indirect costs	758,794	811,670	(52,876)
Less: HOTEDD admin/fiscal contracts	<u>(47,037)</u>	<u>(47,037)</u>	<u>-</u>
Net indirect costs recovered	<u>711,757</u>	<u>764,633</u>	<u>\$(52,876)</u>
CALCULATION OF INDIRECT COST RATE			
Adjusted gross salaries	1,307,337	1,267,738	
Net fringe benefits recovered	672,834	652,531	
Less: indirect salaries and benefits	<u>(513,947)</u>	<u>(537,703)</u>	
Total program personnel costs	<u>\$ 1,466,224</u>	<u>\$ 1,382,566</u>	
Indirect rate	<u>48.54%</u>	<u>55.31%</u>	

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FRINGE BENEFITS

YEAR ENDED SEPTEMBER 30, 2016

	2016	
	Actual	Budget
Payroll taxes	\$ 106,296	\$ 112,735
Group insurance	185,471	180,640
Retirement contribution	99,671	101,094
Release time	195,641	166,328
Prior period carryforward	<u>-</u>	<u>112,037</u>
TOTAL FRINGE BENEFITS	\$ <u>587,079</u>	\$ <u>672,834</u>
TOTAL WAGES	\$ 1,267,738	\$ 1,307,337
EMPLOYEE BENEFIT RATE	46.31%	51.47%
FRINGE BENEFITS RECOVERED	<u>652,531</u>	
OVER (UNDER) RECOVERED		
TO BE RECAPTURED IN FUTURE YEARS	\$ <u>65,452</u>	

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SINGLE AUDIT SECTION

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

**INDEPENDENT AUDITORS' REPORT 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Heart of Texas Council of Governments (the "Council") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council'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 Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
June 21, 2017



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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
AND STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND THE STATE OF
TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Heart of Texas Council of Governments' (the "Council's") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* and the *State of Texas Uniform Grant Management Standards* ("UGMS"), issued by the Texas Comptroller of Public Accounts, 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, 2016. 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.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal and state 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); and UGMS. Those standards, the Uniform Guidance and UGMS 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 or 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Council's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Council 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 and state programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the Council 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 Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state 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 and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and UGMS, 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 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 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. *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 or state 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 and UGMS. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
June 21, 2017

HEART OF TEXAS COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL AWARDS				
<u>U. S. Department of Commerce</u>				
Passed through the Heart of Texas Economic Development District:				
Continuation Planning Assistance	11.302	08-83-05013	\$ 51,901	\$ -
Total Heart of Texas Economic Development District			51,901	-
Total U. S. Department of Commerce			51,901	-
<u>U. S. Department of Housing and Urban Development</u>				
Passed through Texas Department of Agriculture:				
TxCDBG - Community and Economic Development Fund	14.228	C715215	10,504	-
TxCDBG - Community and Economic Development Fund	14.228	C716215	207	-
Total Texas Department of Agriculture			10,711	-
Total U. S. Department of Housing and Urban Development			10,711	-
<u>U. S. Department of Transportation</u>				
Passed through the Texas Department of Transportation:				
Federal Bus and Bus Facilities Public Transportation	20.526	51409F7236	7,564	-
Subtotal				
Rural Public Transportation Section 5311	20.509	51018010915	168,036	-
Rural Public Transportation Section 5311	20.509	51018010915	438,701	438,701
Rural Public Transportation Section 5311	20.509	51018010916	17,395	-
Rural Public Transportation Section 5311	20.509	51018010916	33,111	33,111
Subtotal			657,243	471,812
Elderly and Disabled - Section 5310	20.513	51016010916	128,424	-
Elderly and Disabled - Section 5310	20.513	51016010917	11,042	-
Subtotal			139,466	-
Total Texas Department of Transportation			804,273	471,812
Total U. S. Department of Transportation			804,273	471,812
<u>U. S. Department of Health and Human Services</u>				
Passed through Texas Department of Aging and Disability Services:				
2016 Title VII - EAP	93.041	539-16-0019-00001	4,335	-
2016 PY Title VII - EAP	93.041	539-16-0019-00001	4	-
Subtotal			4,339	-

*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, 2016

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL AWARDS (Continued)				
<u>U. S. Department of Health and Human Services (Continued)</u>				
Passed through Texas Department of Aging and Disability Services (continued):				
2016 Title VII - OM	93.042	539-16-0019-00001	\$ 30,642	\$ -
Subtotal			<u>30,642</u>	<u>-</u>
2016 Title III - D Evidence Based-Intervention	93.043	539-16-0019-00001	18,553	-
2016 PY Title III - D Evidence Based-Intervention	93.043	539-16-0019-00001	663	-
Subtotal			<u>19,216</u>	<u>-</u>
2015 Title III - B	93.044	539-11-0020-00001	22	-
2016 Title III - B	93.044	539-16-0019-00001	379,012	-
2016 PY Title III - B	93.044	539-16-0019-00001	9,686	-
2016 Title III - C1	93.045	539-16-0019-00001	303,161	235,855
2016 PY Title III - C1	93.045	539-16-0019-00001	11,644	-
2016 Title III - C2	93.045	539-16-0019-00001	407,675	407,675
2016 PY Title III - C2	93.045	539-16-0019-00001	2,335	2,335
2016 NSIP	93.053	539-16-0019-00001	197,988	179,039
Subtotal Aging Cluster			<u>1,311,523</u>	<u>824,904</u>
2016 Title III - E	93.052	539-16-0019-00001	97,993	-
2016 PY Title III - E	93.052	539-16-0019-00001	16,378	-
Subtotal			<u>114,371</u>	<u>-</u>
Medicare Improvements for Patients & Providers ACT (MIPPA)	93.071	539-16-0019-00001	18,628	-
ADRC MIPPA	93.071	539-14-0475-00003	9,265	-
Subtotal			<u>27,893</u>	<u>-</u>
2016 CMS CDAP SHIP (4/01/16 - 3/31/17)	93.324	539-16-0019-00001	65,604	-
Subtotal			<u>65,604</u>	<u>-</u>
2016 Texas Money Follows the Person Demonstration	93.791	539-16-0019-00001	6,636	-
2016 ADRC Housing	93.791	539-14-0475-00003	46,877	-
2016 ADRC Local Contact Agency (OC)	93.791	539-14-0475-00003	10,687	-
2017 ADRC Housing Navigator	93.791	539-14-0475-00003	5,314	-
2017 ADRC Local Contact Agency (OC)	93.791	539-14-0475-00003	910	-
Subtotal			<u>70,424</u>	<u>-</u>
Total Texas Department of Aging and Disability Services			<u>1,644,012</u>	<u>824,904</u>
Total U. S. Department of Health and Human Services			<u>1,644,012</u>	<u>824,904</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, 2016

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL AWARDS (Continued)				
<u>U. S. Department of Homeland Security</u>				
Passed through Texas Department of Public Safety:				
2014 Homeland Security Grant Program - M&A	97.067	EMW-2014-SS-00029	\$ 23,452	\$ -
2015 Homeland Security Grant Program - M&A	97.067	PO 30061039	26,245	-
2016 Homeland Security Grant Program - M&A	97.067	COG-HSGD Services FY17	2,917	-
2014 Homeland Security Grant Program - CCP	97.067	2014 SHSP - Regional CCP	37,283	-
2015 Homeland Security Grant Program - CCP	97.067	2954001	9,762	-
2014 Homeland Security Grant Program - ENS	97.067	2014 SHSP - ENS	300	-
2015 Homeland Security Grant Program - ENS	97.067	2953601	62,200	-
2014 Homeland Security Grant Program - Emergency Planning	97.067	2014 SHSP - RP & T	139,380	-
2015 Homeland Security Grant Program - Emergency Planning	97.067	2954101	77,339	-
Total Texas Department of Public Safety			<u>378,878</u>	<u>-</u>
Total U. S. Department of Homeland Security			<u>378,878</u>	<u>-</u>
Total Federal Awards			<u>\$ 2,889,775</u>	<u>\$ 1,296,716</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, 2016

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures
STATE AWARDS		
<u>Texas Commission on Environmental Quality</u>		
Air Quality Planning	582-16-60186	\$ 240,542
Solid Waste Planning	582-16-60654	110,769
Total Texas Commission on Environmental Quality		351,311
<u>Texas Governor's Office, Criminal Justice Division</u>		
2013-2015 Regional Law Enforcement Training	SF14A101784708	(684)
2015-2017 Regional Law Enforcement Training	SF15A101784709	61,526
Subtotal		60,842
2015-2016 Regional Planning	30061085	31,173
2016-2017 Regional Planning	30071039	3,119
Subtotal		34,292
2014-2015 Purchase of Juvenile Justice Alternatives	1424116	(176)
2015-2016 Purchase of Juvenile Justice Alternatives	1424117	24,298
2016-2017 Purchase of Juvenile Justice Alternatives	1424118	132
Subtotal		24,254
Total Texas Governor's Office, Criminal Justice Division		119,388
<u>Texas Department of Aging and Disability Services</u>		
2016 State General Revenue	539-16-0019-00001	108,299
2016 Ombudsman Assisted Living Facility Services	539-16-0019-00001	20,169
2016 ARDC State General Revenue	539-14-0475-00003	112,446
2016 ARDC Promoting Independence	539-14-0475-00003	17,071
2017 ARDC State General Revenue	539-14-0475-00003	8,966
2017 ARDC Promoting Independence	539-14-0475-00003	1,150
2016 PY Ombudsman Assisted Living Facility Services	539-16-0019-00001	1,937
Total Texas Department of Aging and Disability Services		270,038
<u>Texas Commission on State Emergency Communications</u>		
2015 - 911 Emergency Communications	N/A	356,624
2016 - 911 Emergency Communications	N/A	601,456
2017 - 911 Emergency Communications	N/A	27,460
Total Texas Commission on State Emergency Communications		985,540

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, 2016

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures
STATE AWARDS (Continued)		
<u>Texas Department of Transportation</u>		
Rural Public Transportation - Section 5311	512XXF7065	\$ 43,281
Rural Public Transportation - Section 5311	512XXF7065	269,530
Rural Public Transportation - Section 5311	51218010917	4,348
Rural Public Transportation - Section 5311	51218010917	<u>20,294</u>
Subtotal		<u>337,453</u>
RTAP Scholarship	N/A	<u>1,480</u>
Total Texas Department of Transportation		<u>338,933</u>
<u>Texas Health and Human Services Commission</u>		
2015-2016 211 Area Information - Childcare	529-16-0006-00007A	11,622
2015-2016 211 Area Information - Operational	529-16-0006-00007	356,286
2016-2017 211 Area Information - Childcare	529-16-0006-00007C	424
2016-2017 211 Area Information - Operational	529-16-0006-00007B	<u>33,985</u>
Total Texas Health and Human Services Commission		<u>402,317</u>
Total State Awards		<u>\$ 2,467,527</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, 2016

1. GENERAL

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards programs of the reporting entity. 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Texas Uniform Grant Management Standards* ("UGMS"). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. NEGATIVE AMOUNTS

Due to a revision in the allocation of certain costs, the grantor has retroactively allocated certain grant expenditures. As a result of this, the effected grants reflect a negative balance on the current Schedule of Expenditures of Federal and State Awards.

4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Grant expenditure reports as of September 30, 2016, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are often prepared at different dates and sometimes reflect refined estimates of year-end accruals. The reports will agree at termination of the grant, as the discrepancies noted are timing differences.

5. INDIRECT COSTS

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

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Summary of Auditors' Results

Financial Statements:

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

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	Unmodified

Any audit findings disclosed that are required to
be reported in accordance with 2 CFR 200.516(a)
or the State of Texas Uniform Grant Management
Standards?

No

Identification of major programs:

CFDA Number(s)	Name of Program or Cluster:
#20.509	Rural Public Transportation Section 5311
State	911 Emergency Communications
State	Rural Public Transportation - Section 5311

Dollar threshold used to distinguish between type A
and type B federal programs

\$750,000

Dollar threshold used to distinguish between type A
and type B state programs

\$300,000

Auditee qualified as low-risk auditee for federal single audit?

Yes

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, 2016

None