

**HEART OF TEXAS COUNCIL
OF GOVERNMENTS**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2017

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, 2017, 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, 2017, 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 30 through 32 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 April 18, 2018, 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
April 18, 2018

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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, 2017. 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, 2017, by \$1,653,078 (net position). Of this amount, \$259,900 represents the balance of unrestricted net position for the Council.
- The Council's total net position increased by \$117,700 during the fiscal year.
- As of the close of the current fiscal year, the Council's governmental fund reported an ending fund balance of \$486,882, an increase of \$83,016 in comparison with the prior year.
- As of September 30, 2017, unassigned fund balance in the General Fund was \$304,726.

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, deferred outflows/inflows 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 and deferred inflows of resources by \$1,653,078 as of September 30, 2017.

HEART OF TEXAS COUNCIL OF GOVERNMENTS' NET POSITION

	Governmental Activities	
	2017	2016
Current assets	\$ 1,399,765	\$ 1,558,570
Capital assets	<u>2,847,629</u>	<u>2,962,597</u>
Total assets	<u>4,247,394</u>	<u>4,521,167</u>
Deferred outflows of resources	<u>81,915</u>	<u>75,852</u>
Current liabilities	915,918	1,158,075
Other liabilities	<u>1,746,652</u>	<u>1,903,566</u>
Total liabilities	<u>2,662,570</u>	<u>3,061,641</u>
Net position:		
Net investment in capital assets	1,228,523	1,155,050
Restricted for:		
Federal and state programs	164,655	131,124
Unrestricted	<u>259,900</u>	<u>249,204</u>
Total net position	<u>\$ 1,653,078</u>	<u>\$ 1,535,378</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, \$164,655 is restricted and can be used only for certain purposes as required by federal and state granting agencies.

The Council's total assets decreased by \$273,773 during the year. Total liabilities decreased by \$399,071 (9%). This was primarily due to payments made on notes payable and a reduction in the amount due to the Heart of Texas Economic Development District (HOTEDD) under the terms of a lease 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. The amount due to HOTEDD decreased primarily because of an increase in maintenance costs during the fiscal year.

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

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

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 390,000	\$ 403,439
Operating grants and contributions	6,671,197	6,570,259
General revenues:		
Membership dues	57,721	57,881
Unrestricted investment income	4,946	1,906
Miscellaneous	112,725	2,964
Total revenues	<u>7,236,589</u>	<u>7,036,449</u>
Expenses after allocation of indirect costs:		
General government	284,521	146,660
Aging	2,934,042	2,837,875
Transportation	1,288,969	1,490,195
Emergency communications	1,238,817	978,559
Homeland security	300,722	372,498
Health and human services	406,118	436,462
Environmental quality	262,656	353,040
Criminal justice	152,477	119,856
Community development	11,704	15,172
Economic development	159,386	168,651
Interest on long-term debt	79,477	78,451
Total expenses after allocation of indirect costs	<u>7,118,889</u>	<u>6,997,419</u>
Change in net position	117,700	39,030
Net position, beginning	<u>1,535,378</u>	<u>1,496,348</u>
Net position, ending	<u>\$ 1,653,078</u>	<u>\$ 1,535,378</u>

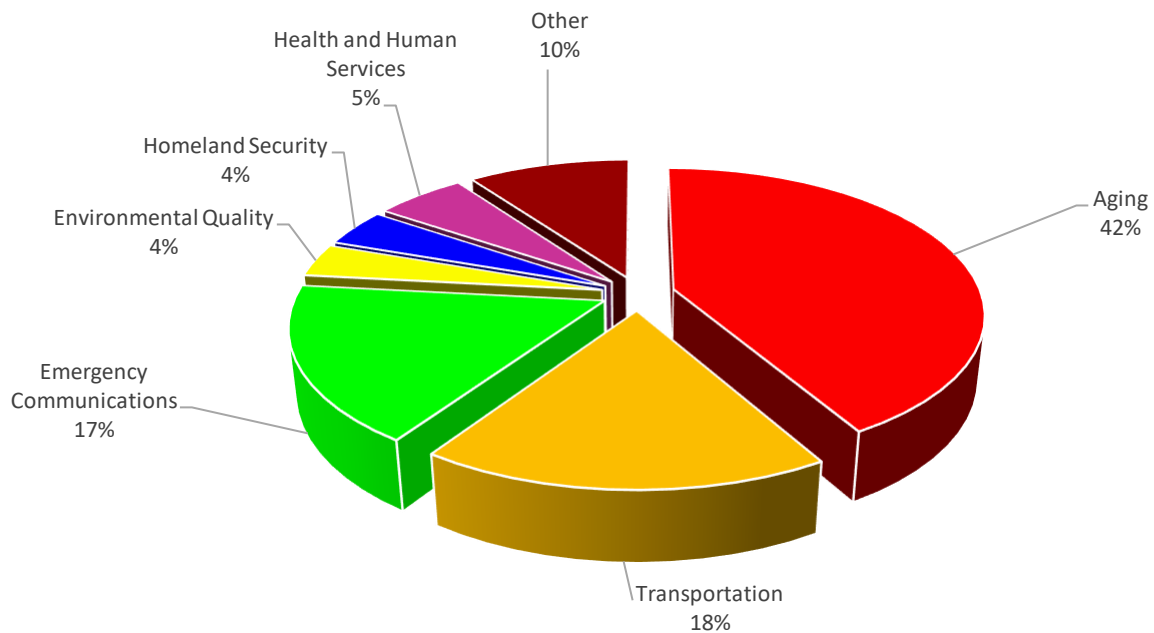
The Council experienced an increase in revenues of \$200,140 or 3% from 2016. Expenses also increased slightly by \$121,470 or 2% from the prior year. The Council's operations are driven primarily by federal and state grant funding, which can vary significantly from year to year.

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 \$486,882, an increase of \$83,016 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, 2017, amounts to \$2,847,629 (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	
	2017	2016
Capital assets:		
Land	\$ 690,000	\$ 690,000
Buildings and improvements	2,810,000	2,810,000
Machinery and equipment	2,338,990	2,211,270
Less accumulated depreciation	(2,991,361)	(2,748,673)
Total capital assets, net of accumulated depreciation	\$ <u>2,847,629</u>	\$ <u>2,962,597</u>

There were no major 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 2018.

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, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 432,410
Receivables:	
Grantors	899,597
Other	50,257
Prepaid expenses	17,501
Capital assets:	
Land	690,000
Buildings and improvements	2,810,000
Machinery and equipment	2,338,990
Less: accumulated depreciation	(2,991,361)
Total capital assets	<u>2,847,629</u>
Total assets	<u>4,247,394</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>81,915</u>
Total deferred outflows of resources	<u>81,915</u>
LIABILITIES	
Accounts payable	471,121
Unearned revenue	24,681
Due to HOTEDD	370,614
Accrued liabilities	49,502
Noncurrent liabilities:	
Due within one year	301,185
Due in more than one year	<u>1,445,467</u>
Total liabilities	<u>2,662,570</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>13,661</u>
Total deferred inflows of resources	<u>13,661</u>
NET POSITION	
Net investment in capital assets	1,228,523
Restricted for federal and state programs	164,655
Unrestricted	<u>259,900</u>
Total net position	<u>\$ 1,653,078</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, 2017

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	\$ 284,521	\$ -	\$ 284,521	\$ 390,000	\$ -	\$ 105,479
Aging	2,652,016	282,026	2,934,042	-	2,871,890	(62,152)
Transportation	1,212,494	76,475	1,288,969	-	1,283,289	(5,680)
Emergency communications	1,173,754	65,063	1,238,817	-	1,235,202	(3,615)
Homeland security	241,328	59,394	300,722	-	303,810	3,088
Health and human services	283,839	122,279	406,118	-	399,093	(7,025)
Environmental quality	235,465	27,191	262,656	-	260,315	(2,341)
Criminal justice	127,157	25,320	152,477	-	149,401	(3,076)
Community development	8,750	2,954	11,704	-	11,181	(523)
Economic development	116,749	42,637	159,386	-	157,016	(2,370)
Indirect costs	703,339	(703,339)	-	-	-	-
Interest on long-term debt	79,477	-	79,477	-	-	(79,477)
Total governmental activities	\$ <u>7,118,889</u>	\$ <u>-</u>	\$ <u>7,118,889</u>	\$ <u>390,000</u>	\$ <u>6,671,197</u>	(57,692)
General revenues:						
Membership dues						57,721
Unrestricted investment income						4,946
Miscellaneous income						<u>112,725</u>
Total general revenues						<u>175,392</u>
Change in net position						117,700
Net position, beginning						<u>1,535,378</u>
Net position, ending						\$ <u><u>1,653,078</u></u>

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, 2017

	<u>General</u>
ASSETS	
Cash and investments	\$ 432,410
Due from grantor agencies	899,597
Other receivables	50,257
Prepaid items	<u>17,501</u>
Total assets	<u>\$ 1,399,765</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 471,121
Unearned revenue	24,681
Due to HOTEDD	370,614
Accrued liabilities	<u>46,467</u>
Total liabilities	<u>912,883</u>
Fund balance:	
Nonspendable - prepaid items	17,501
Restricted for:	
Aging	23,716
Transportation	58,469
Criminal justice	42,598
Homeland security	10,124
Health and human services	29,748
Unassigned	<u>304,726</u>
Total fund balance	<u>486,882</u>
Total liabilities and fund balance	<u>\$ 1,399,765</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.	\$ 2,847,629
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,749,687)

Deferred outflows/inflows of resources related to pensions are not reported in the funds.	<u>68,254</u>
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Net position of governmental activities	<u>\$ 1,653,078</u>
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The notes to the financial statements are an integral part of this statement.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General</u>
REVENUES	
Federal	\$ 2,923,389
State	2,532,756
Program income/in-kind match	1,050,183
Rent	390,000
Local funds	275,467
Membership dues	57,721
Investment income	<u>7,073</u>
Total revenues	<u>7,236,589</u>
EXPENDITURES	
Current:	
General government	178,581
Aging	2,915,239
Transportation	1,279,966
Emergency communications	1,235,198
Homeland security	296,253
Health and human services	399,315
Environmental quality	261,144
Criminal justice	151,069
Community development	11,540
Economic development	157,014
Debt service:	
Principal	188,441
Interest	<u>79,813</u>
Total expenditures	<u>7,153,573</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	83,016
FUND BALANCE, BEGINNING	<u>403,866</u>
FUND BALANCE, ENDING	<u>\$ 486,882</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, 2017

Net change in fund balances - total governmental funds:	\$ 83,016
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.	(114,968)
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.	188,441
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.	(38,789)
Change in net position of governmental activities	\$ <u>117,700</u>

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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 fund:

The **General Fund** is the Council's primary operating fund. It accounts for all financial resources of the general government, except those required to be 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 Investments

Cash is 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.

The Council may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or otherwise secured; and certain repurchase agreements.

The Council's investments consist of investments in qualifying external investment pools that measure for financial reporting purposes all of their investment at amortized cost. The Council's investment in pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The Council's investment pool has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

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, 2017.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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 acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Unearned Revenue

Unearned revenue represents amounts received from grantors in excess of qualifying expenditures for programs in progress as of September 30, 2017.

Deferred Outflows of Resources

Deferred outflows of resources represent 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 that time. Deferred outflows of resources consist of differences between projected and actual investment earnings related to pensions, changes in actuarial assumptions related to pensions, pension contributions made subsequent to the actuarial measurement date and differences between expected and actual economic experiences related to pensions.

Deferred Inflows of Resources

Deferred inflows of resources represent 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. Deferred inflows of resources consist of differences between expected and actual economic experiences related to pensions.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Fund balances of governmental funds classified as restricted are balances with constraints placed on the use of resources by grantors.

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.

F. Revenues and expenditures/expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers 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.

Federal, State, and Local Grant Revenues

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Deferred inflows of resources will arise when potential revenue does not meet the “available” criteria for revenue recognition in the current period. Unearned revenue arises when resources are received by the Council before it has a legal claim to them, as when grant money is received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the Council has a legal claim to the resources, the liability for the unearned revenue or the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Indirect Costs

General and administrative costs are recorded as indirect costs in the Council’s accounting system and allocated to grants based upon a negotiated indirect cost rate. Indirect costs are defined by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* as costs “(a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives 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 federal and state cognizant agency. It is the Council's policy to negotiate with the cognizant agency a fixed rate which is used for billing purposes during the Council's fiscal year. The Council uses a fixed-rate plus carry-forward provision. The rates are submitted to the cognizant agency on an annual basis, based on projected costs submitted in a Cost Allocation Plan. Final costs not recovered by the billing rates are allowed by the oversight federal or state agency to be recovered in succeeding years.

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.

Member Government Dues

All member governments are required to pay dues to the Council. Dues are determined annually and are recognized as revenues when assessed because they are measurable and are collectible within the current period.

In-Kind and Contributed Services

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. Contributed services are therefore recorded as revenue and expenditures in the individual grants. The amounts of such services are recorded in the accompanying financial statements at their estimated fair value at date of service.

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, 2017, 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, 2017, 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>601,187</u>	34	AAAm

TexPool is a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. The Council's investment in this pool is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

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.

Capital Assets

Capital asset activity for the year ended September 30, 2017, 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>2,211,270</u>	<u>209,120</u>	<u>81,400</u>	<u>2,338,990</u>
Total capital assets being depreciated	<u>5,021,270</u>	<u>209,120</u>	<u>81,400</u>	<u>5,148,990</u>
Less accumulated depreciation:				
Buildings and improvements	947,750	70,250	-	1,018,000
Machinery and equipment	<u>1,802,493</u>	<u>219,708</u>	<u>48,840</u>	<u>1,973,361</u>
Total accumulated depreciation	<u>2,750,243</u>	<u>289,958</u>	<u>48,840</u>	<u>2,991,361</u>
Total capital assets, being depreciated, net	<u>2,271,027</u>	<u>(80,838)</u>	<u>32,560</u>	<u>2,157,629</u>
Governmental activities capital assets, net	<u>\$ 2,961,027</u>	<u>\$ (80,838)</u>	<u>\$ 32,560</u>	<u>\$ 2,847,629</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 71,810
Transportation	213,869
Aging	3,114
Homeland security	<u>1,165</u>
Total depreciation expense - governmental activities	<u>\$ 289,958</u>

Rental Revenue

The Council leases a building to the Heart of Texas Workforce Development Board (HOTWDB) under a cancelable operating lease dated January 1, 2013. Rental revenues for the year ended September 30, 2017, were \$390,000. The original lease term was 36 months, with an additional two one-year renewal options. In addition, HOTWDB has options for an additional five-year period, consisting of five one-year renewal options.

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 a lease agreement. Under the terms of the agreement, rental revenues received by the Council for the rental of a building (see disclosure above) 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.

Additionally, the Council serves as HOTEDD's fiscal agent. Accordingly, a proportionate share of the Council's pooled cash is also part of the "Due to HOTEDD" balance.

Long-term Debt

A summary of long-term liability activity for the year ended September 30, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in One Year
Governmental activities:					
Notes payable	\$ 1,807,547	\$ -	\$ 188,441	\$ 1,619,106	\$ 198,950
Net pension liability	1,439	111,536	99,023	13,952	-
Compensated absences payable	94,580	116,734	97,720	113,594	102,235
	<u>\$ 1,903,566</u>	<u>\$ 228,270</u>	<u>\$ 385,184</u>	<u>\$ 1,746,652</u>	<u>\$ 301,185</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 in an original amount of \$2,975,000, has an interest rate of 4.94%, and a maturity date of November 2024. The second note was issued in 2011 with an original amount of \$350,423, has an interest rate of 4.94% and a maturity date of November 2024.

The following is a schedule of the future minimum payments under these agreements:

Year Ending	Principal	Interest	Total
2018	\$ 198,950	\$ 61,623	\$ 260,573
2019	207,122	53,451	260,573
2020	215,503	45,070	260,573
2021	224,482	36,091	260,573
2022	233,703	26,870	260,573
2022-2025	<u>539,346</u>	<u>24,784</u>	<u>564,130</u>
Total	<u>\$ 1,619,106</u>	<u>\$ 247,889</u>	<u>\$ 1,866,996</u>

Operating Leases

The Council leases a building to provide a facility for its operations under a cancelable operating lease with HOTEDD. Total cost for this lease was \$244,801 for the year ended September 30, 2017. The rental payments increase every three years by 3%.

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, 2017, 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 2016 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, 2016, 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	5
Active employees	<u>31</u>
	<u><u>36</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, 2017, were \$100,322, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

Inflation	3.0% per year
Overall payroll growth	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, 2016, 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 2016 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 2016 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 2017 information for a 7 to 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

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

⁽¹⁾ Target asset allocation adopted at the April 2017 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0% per Cliffwater's 2017

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

⁽⁴⁾ Includes vintage years 2005-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	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 42,395	\$ 40,955	\$ 1,440
Changes for the year:			
Service cost	180,991	-	180,991
Interest on total pension liability ⁽¹⁾	10,621	-	10,621
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	(15,612)	-	(15,612)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	(34)	34
Member contributions	-	57,740	(57,740)
Net investment income	-	3,125	(3,125)
Employer contributions	-	99,023	(99,023)
Other ⁽³⁾	-	3,634	(3,634)
Balance at 12/31/2016	<u>\$ 218,395</u>	<u>\$ 204,443</u>	<u>\$ 13,952</u>

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

⁽²⁾ No plan changes valued.

⁽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	Current	1% Increase
	7.1%	Discount Rate	9.1%
		8.1%	
Total pension liability	\$ 250,876	\$ 218,394	\$ 191,637
Fiduciary net position	<u>204,443</u>	<u>204,442</u>	<u>204,443</u>
Net pension liability/(asset)	<u>\$ 46,433</u>	<u>\$ 13,952</u>	<u>\$ (12,806)</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, 2017, the Council recognized pension expense of \$120,434.

At September 30, 2017, 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	\$ 13,661	\$ 133
Changes in actuarial assumptions	-	454
Net difference between projected and actual investment earnings	-	6,452
Contributions made subsequent to the measurement date	<u>-</u>	<u>74,876</u>
Total	<u>\$ 13,661</u>	<u>\$ 81,915</u>

\$74,876 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, 2018. 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,	
2018	\$ (154)
2019	(154)
2020	(154)
2021	(556)
2022	(1,868)
Thereafter	(3,736)

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**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, 2017

Plan Year Ended December 31	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service Cost	\$ 40,740	\$ 180,990
Interest total pension liability	1,614	10,621
Effect of plan changes	(713)	-
Effect of assumption changes or inputs	583	-
Effect of economic/demographic (gains) or losses	<u>171</u>	<u>(15,611)</u>
Net change in total pension liability	42,395	176,000
Total pension liability - beginning	<u>-</u>	<u>42,395</u>
Total pension liability - ending (a)	<u><u>\$ 42,395</u></u>	<u><u>\$ 218,395</u></u>
Plan Fiduciary Net Position		
Employer contributions	\$ 26,103	\$ 99,023
Member contributions	15,221	57,740
Investment income net of investment expenses	(351)	3,125
Administrative expenses	(15)	(34)
Other	<u>(2)</u>	<u>3,633</u>
Net change in plan fiduciary net position	40,956	163,487
Plan fiduciary net position - beginning	<u>-</u>	<u>40,956</u>
Plan fiduciary net position - ending (b)	<u><u>40,956</u></u>	<u><u>204,443</u></u>
Net pension liability - ending (a) - (b)	<u><u>\$ 1,439</u></u>	<u><u>\$ 13,952</u></u>
Fiduciary net position as a percentage of total pension liability	97%	94%
Pensionable covered payroll	\$ 1,522,022	\$ 1,443,496
Net pension liability as a percentage of covered payroll	0.1%	0.97%

Information for the previous 8 years is not available. GASB 68 was implemented in fiscal year 2016. The Council enrolled in TCDRS in fiscal year 2016.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2017	\$ 100,323	\$ 100,323	\$ -	\$ 1,449,834	6.9%
2016	\$ 99,680	\$ 99,680	\$ -	\$ 1,444,644	6.9%

Information for the previous 8 years is not available. GASB 68 was implemented in fiscal year 2016. The Council enrolled in TCDRS in fiscal year 2016.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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	19.1 years (based on contribution rate calculated in 12/31/2016 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 legible 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, 2017

	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	\$ 360,751	\$ 32,385	\$ 3,778	\$ 97,823	\$ 34,781
Benefits	175,215	15,733	1,836	47,514	16,894
Delegate agency	1,879,094	49,139	-	803,926	9,902
Contractual services	38,280	15,755	-	-	160,623
Supplies and materials	39,537	2,828	-	214,213	770
Travel	29,801	3,645	442	2,928	1,583
Office space	70,166	5,361	435	12,609	7,702
Repairs and maintenance	-	-	-	495	-
Utilities/telephone	6,531	873	70	8,519	1,004
Other	33,838	30	2,025	15,464	694
Debt service	-	-	-	-	-
Indirect cost allocation	<u>282,026</u>	<u>25,320</u>	<u>2,954</u>	<u>76,475</u>	<u>27,191</u>
Total expenditures	<u>\$ 2,915,239</u>	<u>\$ 151,069</u>	<u>\$ 11,540</u>	<u>\$ 1,279,966</u>	<u>\$ 261,144</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>
\$ 83,225	\$ 54,540	\$ 75,977	\$ 156,412	\$ -	\$ 899,672
40,421	26,490	36,900	75,969	-	436,972
1,003,865	-	-	-	-	3,745,926
-	-	72,800	6,679	-	294,137
4,768	2,006	19,771	2,649	-	286,542
9,448	12,804	7,672	1,947	-	70,270
23,884	16,982	17,821	21,446	-	176,406
-	-	-	-	87,168	87,663
2,897	1,555	3,003	1,156	-	25,608
1,627	-	2,915	10,778	91,413	158,784
-	-	-	-	268,254	268,254
65,063	42,637	59,394	122,279	-	703,339
<u>\$ 1,235,198</u>	<u>\$ 157,014</u>	<u>\$ 296,253</u>	<u>\$ 399,315</u>	<u>\$ 446,835</u>	<u>\$ 7,153,573</u>

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

YEAR ENDED SEPTEMBER 30, 2017

	Budget	Actual	Variance
INDIRECT COSTS			
Salaries	\$ 356,188	\$ 358,168	\$ (1,980)
Benefits	<u>172,993</u>	<u>173,962</u>	<u>(969)</u>
Total indirect salaries and benefits	<u>529,181</u>	<u>532,130</u>	<u>(2,949)</u>
Travel	14,000	10,614	3,386
Supplies	5,000	4,219	781
Legal fees	1,000	90	910
Audit	32,100	32,100	-
Space costs	110,777	115,740	(4,963)
Communications	5,000	3,636	1,364
Copies/printing	5,500	4,962	538
Computer costs	42,000	46,994	(4,994)
Postage	12,000	6,621	5,379
Insurance/bonding	3,500	3,071	429
Dues/subscriptions/publications	14,000	21,224	(7,224)
Other costs/miscellaneous	<u>3,500</u>	<u>5,707</u>	<u>(2,207)</u>
Total other indirect costs	<u>248,377</u>	<u>254,978</u>	<u>(6,601)</u>
Total indirect costs	777,558	787,108	(9,550)
Less: HOTEDD admin/fiscal contracts	<u>(48,448)</u>	<u>(48,448)</u>	<u>-</u>
Net indirect costs	<u>\$ 729,110</u>	<u>738,660</u>	<u>\$ (9,550)</u>
Indirect costs recovered		<u>(704,211)</u>	
Over (under) recovered to be recaptured in future years		<u>\$ (34,449)</u>	

CALCULATION OF INDIRECT COST RATE:

Adjusted gross salaries	\$ 1,288,813	\$ 1,257,840
Net fringe benefits recovered	625,949	611,477
Less: indirect salaries and benefits	<u>(529,181)</u>	<u>(532,130)</u>
Total program personnel costs	<u>\$ 1,385,581</u>	<u>\$ 1,337,187</u>
Indirect rate	<u>52.62%</u>	<u>55.24%</u>

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FRINGE BENEFITS

YEAR ENDED SEPTEMBER 30, 2017

	<u>Actual</u>	<u>Budget</u>
Payroll taxes	\$ 106,443	\$ 111,237
Group insurance	197,547	202,573
Retirement contribution	100,322	100,913
Release time	209,889	165,263
Prior period carryforward	<u>-</u>	<u>45,963</u>
TOTAL FRINGE BENEFITS	<u>\$ 614,201</u>	<u>\$ 625,949</u>
TOTAL WAGES	\$ 1,257,840	\$ 1,288,813
EMPLOYEE BENEFIT RATE	48.83%	48.57%
FRINGE BENEFITS RECOVERED	<u>611,477</u>	
OVER (UNDER) RECOVERED		
TO BE RECAPTURED IN FUTURE YEARS	<u>\$(2,724)</u>	

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SINGLE AUDIT

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

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

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, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated April 18, 2018.

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.

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

Waco, Texas
April 18, 2018



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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
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, 2017. 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, 2017.

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
April 18, 2018

HEART OF TEXAS COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2017

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	11.3	08-83-05013	\$ 69,733	\$ -
Total Heart of Texas Economic Development District			69,733	-
Total U. S. Department of Commerce			69,733	-
<u>U. S. Department of Housing and Urban Development</u>				
Passed through the Texas Department of Agriculture:				
TxCDBG - Community and Economic Development Fund	14.228	C716215	10,499	-
TxCDBG - Community and Economic Development Fund	14.228	C717215	682	-
Total Texas Department of Agriculture			11,181	-
Total U. S. Department of Housing and Urban Development			11,181	-
<u>U. S. Department of Justice</u>				
Passed through the Texas Governor's Office, Criminal Justice Division:				
2016-2017 Purchase of Juvenile Justice Alternatives	16.540	1424118	52,963	49,138
2017-2018 Purchase of Juvenile Justice Alternatives	16.540	1424119	3	-
Total Texas Governor's Office, Criminal Justice Division			52,966	49,138
Total U. S. Department of Justice			52,966	49,138
<u>U. S. Department of Transportation</u>				
Passed through the Texas Department of Transportation:				
Rural Public Transportation Section 5311	20.51	51018010916	177,104	-
Rural Public Transportation Section 5311	20.51	51018010916	389,512	389,512
Subtotal			566,616	389,512
Elderly and Disabled - Section 5310	20.51	51016010918	10,329	10,329
Elderly and Disabled - Section 5310	20.51	51016010917	117,300	117,300
Subtotal			127,629	127,629
Transportation Infrastructure Generating Economic Recovery (TIGER)	20.93	51079010917	209,120	-
Total Texas Department of Transportation			903,365	517,141
Total U. S. Department of Transportation			903,365	517,141
<u>U. S. Department of Health and Human Services</u>				
Passed through Texas Department of Aging and Disability Services:				
2017 Title VII - EAP	93.04	539-16-00019-00001	4,356	-
Subtotal			4,356	-

*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, 2017

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):				
2017 Title VII - OM	93.04	539-16-00019-00001	\$ 29,287	\$ -
Subtotal			29,287	-
2017 Title III - D Evidence Based Intervention	93.04	539-16-00019-00001	18,910	-
Subtotal			18,910	-
2016 Title III - B	93.04	539-16-00019-00001	(26,507)	-
2017 Title III - B	93.04	539-16-00019-00001	465,286	-
2016 Title III - C1	93.05	539-16-00019-00001	19,916	19,916
2016 Title III - C2	93.05	539-16-00019-00001	(30,825)	(30,825)
2017 Title III - C1	93.05	539-16-00019-00001	271,406	227,516
2017 PY Title III - C1	93.05	539-16-00019-00001	45,279	45,279
2017 Title III - C2	93.05	539-16-00019-00001	318,240	295,590
2017 PY Title III - C2	93.05	539-16-00019-00001	3	3
2017 NSIP	93.05	539-16-00019-00001	200,892	200,892
Subtotal Aging Cluster			1,263,690	758,371
2017 ADRC Texas No Wrong Door	93.05	539-14-0475-00003	1,893	-
Subtotal			1,893	-
2016 Title III - E	93.05	539-16-00019-00001	359	-
2017 Title III - E	93.05	539-16-00019-00001	127,413	-
2017 PY Title III - E	93.05	539-16-00019-00001	45,479	-
Subtotal			173,251	-
2017 Medicare Improvements for Patients & Providers Act	93.07	539-16-00019-00001	17,289	-
2017 Medicare Improvements for Patients & Providers Act	93.07	539-16-00019-00001	974	-
2016 ADRC Medicare Improvements for Patients & Providers Act	93.07	539-14-0475-00003	755	-
2017 ADRC Medicare Improvements for Patients & Providers Act	93.07	539-14-0475-00003	7,972	-
Subtotal			26,990	-
2017 ADRC Texas Lifespan Program	93.07	539-14-0475-00003	22,363	-
Subtotal			22,363	-
2017 CMS CDAP SHIP (4/01/17 - 3/31/18)	93.32	539-16-00019-00001	14,729	-
Subtotal			14,729	-
2017 ADRC Housing	93.79	539-14-0475-00003	46,600	-
2017 ADRC Local Contact Agency (OC)	93.79	539-14-0475-00003	9,117	-
2018 ADRC Housing Navigator	93.79	539-14-0475-00003	7,640	-
2018 ADRC Local Contact Agency (OC)	93.79	539-14-0475-00003	949	-
Subtotal			64,306	-
Total Texas Department of Aging and Disability Services			1,619,775	758,371
Total U. S. Department of Health and Human Services			1,619,775	758,371

*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, 2017

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 Governor's Office, Homeland Security Grants Division:				
2015 Homeland Security Grant Program - Regional Planning	97.067	2954101	\$ 31,811	\$ -
2015 Homeland Security Grant Program - Regional Training and Exercises	97.07	2953701	58,318	-
2015 Homeland Security Grant Program - Regional Citizen Corps Program	97.067	2954001	15,238	-
2016 Homeland Security Grant Program - Regional Planning	97.07	2954102	80,508	-
2016 Homeland Security Grant Program - Regional Citizen Corps Program	97.07	2954002	8,294	-
2016 Homeland Security Grant Program - Regional Emergency Notification System	97.07	2953602	72,200	-
Total Texas Governor's Office, Homeland Security Grants Division			<u>266,369</u>	<u>-</u>
Total U. S. Department of Homeland Security			<u>266,369</u>	<u>-</u>
Total Federal Awards			\$ <u>2,923,389</u>	\$ <u>1,324,650</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, 2017

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures
STATE AWARDS		
<u>Texas Commission on Environmental Quality</u>		
Air Quality Planning	582-16-61084-01	\$ 144,614
Solid Waste Planning	582-16-60654	110,401
Solid Waste Planning	582-18-80538	<u>4,562</u>
Total Texas Commission on Environmental Quality		<u>259,577</u>
<u>Texas Governor's Office, Criminal Justice Division</u>		
2015-2017 Regional Law Enforcement Training	1784709	56,048
2017-2019 Regional Law Enforcement Training	1784710	<u>2,969</u>
Total Texas Governor's Office, Criminal Justice Division		<u>59,017</u>
<u>Texas Department of Aging and Disability Services</u>		
2017 State General Revenue (SGR)	539-16-00019-00001	108,518
2017 Assisted Living Facility Long-Term Care Ombudsman	539-16-00019-00001	21,306
2017 PY Assisted Living Facility Long-Term Care Ombudsman	539-16-00019-00001	1,888
2017 ADRC State General Revenue (SGR)	539-14-0475-00003	98,778
2017 ADRC Promoting Independence	539-14-0475-00003	15,921
2018 ADRC State General Revenue (SGR)	539-14-0475-00003	8,445
2018 ADRC Promoting Independence	539-14-0475-00003	<u>3,523</u>
Total Texas Department of Aging and Disability Services		<u>258,379</u>
<u>Texas Commission on State Emergency Communications</u>		
2015 - 911 Emergency Communications	N/A	156,747
2016 - 911 Emergency Communications	N/A	2,850
2017 - 911 Emergency Communications	N/A	1,044,141
2018 - 911 Emergency Communications	N/A	<u>29,829</u>
Total Texas Commission on State Emergency Communications		<u>1,233,567</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, 2017

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	51218010917	\$ 81,960
Rural Public Transportation - Section 5311	51218010917	<u>238,733</u>
Subtotal		<u>320,693</u>
RTAP Scholarship	N/A	<u>2,430</u>
Total Texas Department of Transportation		<u>323,123</u>
<u>Texas Health and Human Services Commission</u>		
2016-2017 211 Area Information - Childcare	529-16-0006-00007C	10,734
2016-2017 211 Area Information - Operational	529-16-0006-00007B	353,153
2017-2018 211 Area Information - Childcare	529-16-0006-00007E	1,957
2017-2017 211 Area Information - Operational	529-16-0006-00007F	<u>33,249</u>
Total Texas Health and Human Services Commission		<u>399,093</u>
Total State Awards		<u>\$ 2,532,756</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, 2017

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, 2017, 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, 2017

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:
#93.044, 93.045, 93.053	Aging Cluster
State	911 Emergency Communications

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



Mayor Edith Omberg
President

Judge Scott Felton
Vice President

Councilmember Alice Rodriguez
Secretary/Treasurer

Russell Devorsky
Executive Director

**HEART OF TEXAS
COUNCIL OF GOVERNMENTS**

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

None

A Voluntary Association of Local Governments
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