

**HEART OF TEXAS COUNCIL
OF GOVERNMENTS**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2023

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of the Heart of Texas Council of Governments (the "Council"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Council as of September 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Council and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Change in Accounting Principle

As described in the notes to the financial statements, in fiscal year 2023 the Council adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based IT Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern for twelve months beyond the financial statement due date, including any currently know information that may raise substantial doubt shortly thereafter.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The supplemental schedules as listed in the table of contents and the Schedule of Expenditures of Federal and State Awards, as required 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)* and the *Texas Grant Management Standards (TxGMS)*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 supplemental schedules 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 22, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

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

Waco, Texas
April 22, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2023. 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 and deferred outflows of resources of the Council exceeded its liabilities and deferred inflows of resources as of September 30, 2023, by \$3,529,159 (net position). Of this amount, \$512,169 represents the balance of unrestricted net position of the Council.
- The Council's total net position increased by \$587,039 during the fiscal year.
- As of the close of the current fiscal year, the Council's General Fund reported an ending fund balance of \$563,259, a decrease of \$103,894 in comparison with the prior year.
- As of September 30, 2023, unassigned fund balance in the General Fund was \$549,270 .

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 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 9 and 10 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 11 through 13 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 \$3,529,159 as of September 30, 2023.

HEART OF TEXAS COUNCIL OF GOVERNMENTS' NET POSITION

	Governmental Activities	
	2023	2022
Current and other assets	\$ 1,695,145	\$ 2,300,159
Net pension asset	-	69,770
Capital assets	5,568,097	5,257,935
Total assets	<u>7,263,242</u>	<u>7,627,864</u>
Deferred outflows of resources	<u>227,458</u>	<u>163,029</u>
Current liabilities	1,022,668	1,544,799
Noncurrent liabilities	<u>2,823,913</u>	<u>3,059,425</u>
Total liabilities	<u>3,846,581</u>	<u>4,604,224</u>
Deferred inflows of resources	<u>114,960</u>	<u>244,549</u>
Net position:		
Net investment in capital assets	3,016,990	2,357,242
Unrestricted	<u>512,169</u>	<u>584,878</u>
Total net position	<u>\$ 3,529,159</u>	<u>\$ 2,942,120</u>

By far, the largest portion of the Council's net position (85%) reflects its investment in capital assets (e.g., land, buildings, equipment, vehicles, and right to use assets), less any related outstanding debt that was used to acquire those assets. The Council uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Council's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of \$512,169 is unrestricted and may be used to meet the Council's ongoing obligations to its citizens and creditors.

Analysis of the Council's Operations – The following table provides a summary of the Council's operations for the year ended September 30, 2023.

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

	Governmental Activities	
	2023	2022
Revenues:		
Program revenues:		
Charges for services	\$ 429,622	\$ 395,424
Operating grants and contributions	7,702,479	8,905,921
General revenues:		
Membership dues	61,912	57,911
Miscellaneous	35,116	30,982
Unrestricted investment income	<u>21,660</u>	<u>14,783</u>
Total revenues	<u>8,250,789</u>	<u>9,405,021</u>
Expenses after allocation of indirect costs:		
General government	412,047	154,295
Aging	3,193,493	2,903,530
Transportation	1,564,082	1,694,795
Emergency communications	946,007	1,174,037
Homeland security	443,987	1,660,247
Health and human services	425,918	412,567
Environmental quality	321,812	140,771
Criminal justice	147,562	166,330
Community development	14,052	189,525
Economic development	174,818	300,098
Interest on long-term debt	<u>19,972</u>	<u>36,061</u>
Total expenses after allocation of indirect costs	<u>7,663,750</u>	<u>8,832,256</u>
Change in net position	587,039	572,765
Net position, beginning	<u>2,942,120</u>	<u>2,369,355</u>
Net position, ending	<u>\$ 3,529,159</u>	<u>\$ 2,942,120</u>

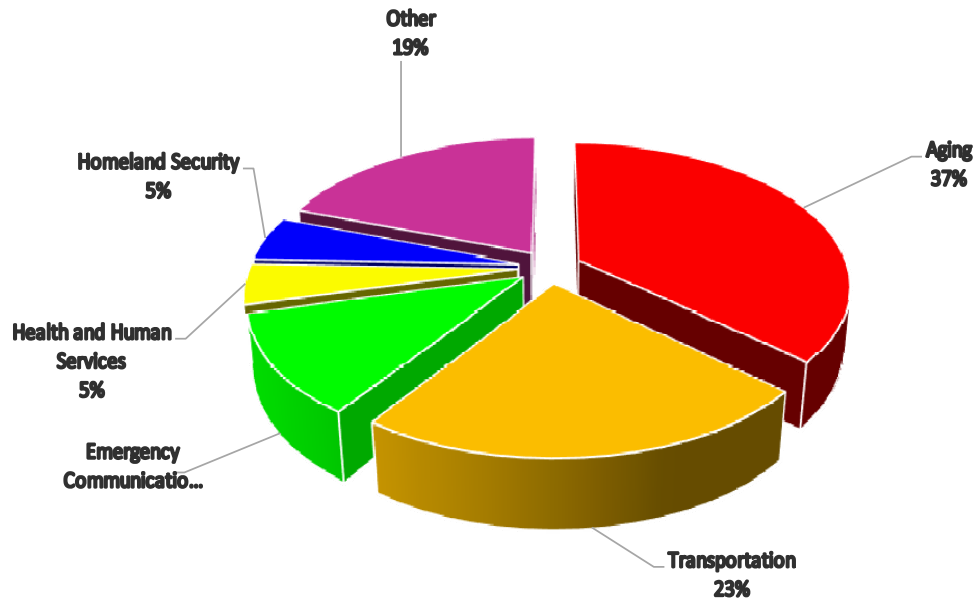
The Council experienced a decrease in revenues of \$1,154,232 or 12% from 2022. Expenses decreased by \$1,168,506 or 13% from the prior year. The Council's operations are driven primarily by federal and state grant funding, which can vary significantly from year to year. The current year saw significant decreases in funding in the Homeland Security program (\$1,213,044) as well as in the Department of Housing & Community Affairs program (\$178,468).

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 \$563,259, an decrease of \$103,894 from the prior year.

Governmental Fund Expenditures by Function



CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The Council's investment in capital assets for its governmental activities as of September 30, 2023, amounts to \$5,568,097 (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	
	2023	2022
Capital assets:		
Land	\$ 690,000	\$ 690,000
Buildings and improvements	2,867,509	2,810,000
Machinery and equipment	3,648,271	2,928,116
Right to use	6,217,747	6,081,311
Less accumulated depreciation	<u>(7,855,430)</u>	<u>(7,251,492)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 5,568,097</u>	<u>\$ 5,257,935</u>

Capital asset additions during the year included the following:

- \$646,633 for the purchase of five new buses for the transportation program.
- \$136,436 for the recognition of right-to-use assets for the subscription of software for the transportation program from the implementation of GASB Statement No. 96, *Subscription-Based IT Arrangements*, in the current year.
- \$57,509 in improvements for the repaving of a parking lot.
- \$73,522 for various equipment and machinery for the 911 program and general government.

Additional information on the Council's capital assets can be found on page 20 of this report.

Long-term Debt

At the end of the current fiscal year, the Council had total long-term liabilities outstanding of \$2,700,946.

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Amount Due in One Year</u>
Governmental Activities:					
Notes payable	\$ 480,257	\$ -	\$ 217,466	\$ 262,791	\$ 226,446
Leases	2,420,436	-	268,556	2,151,880	265,020
SBITA payable	-	136,436	-	136,436	25,414
Compensated absences	<u>158,732</u>	<u>111,429</u>	<u>120,322</u>	<u>149,839</u>	<u>134,855</u>
Total	<u>\$ 3,059,425</u>	<u>\$ 247,865</u>	<u>\$ 606,344</u>	<u>\$ 2,700,946</u>	<u>\$ 651,735</u>

Additional information on the Council's long-term debt can be found on page 21 through 22 of this report.

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 the fiscal year 2024.

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 Deputy Executive Director of Administration at 1514 South New Road, Waco, Texas, 76711.

**BASIC
FINANCIAL STATEMENTS**

HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

	Governmental Activities
ASSETS	
Cash and investments	\$ 415,996
Receivables:	
Grantors	1,148,462
Lease	110,653
Other	6,045
Prepaid expenses	13,989
Capital assets:	
Land	690,000
Buildings and improvements	2,867,509
Machinery and equipment	3,648,271
Right to use	6,081,311
Subscription	136,436
Less: accumulated depreciation	<u>(7,855,430)</u>
Total capital assets	<u>5,568,097</u>
Total assets	<u>7,263,242</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>227,458</u>
Total deferred outflows of resources	<u>227,458</u>
LIABILITIES	
Accounts payable	370,128
Unearned revenue	58,333
Due to HOTEDD	560,556
Accrued liabilities	33,651
Noncurrent liabilities:	
Due within one year:	
Note payable	226,446
Leases	265,020
Subscription	25,414
Compensated absences	134,855
Due in more than one year:	
Note payable	36,345
Leases	1,886,860
Subscription	111,022
Compensated absences	14,984
Net pension liability	<u>122,967</u>
Total liabilities	<u>3,846,581</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	5,742
Deferred inflows of resources related to leases	<u>109,218</u>
Total deferred inflows of resources	<u>114,960</u>
NET POSITION	
Net investment in capital assets	3,016,990
Unrestricted	<u>512,169</u>
Total net position	<u>\$ 3,529,159</u>

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

HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2023

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	\$ 406,621	\$ -	\$ 406,621	\$ 429,622	\$ -	\$ 23,001
Aging	2,912,969	280,524	3,193,493	-	3,211,151	17,658
Transportation	1,584,027	106,784	1,690,811	-	1,987,770	296,959
Emergency communications	950,705	67,371	1,018,076	-	986,838	(31,238)
Health and human services	303,837	122,081	425,918	-	406,228	(19,690)
Homeland security	190,714	59,901	250,615	-	444,047	193,432
Economic development	127,481	47,337	174,818	-	173,393	(1,425)
Criminal justice	118,107	29,455	147,562	-	163,011	15,449
Environmental quality	300,524	21,288	321,812	-	316,847	(4,965)
Community development	10,565	3,487	14,052	-	13,194	(858)
Indirect costs	738,228	(738,228)	-	-	-	-
Interest on long-term debt	19,972	-	19,972	-	-	(19,972)
Total governmental activities	<u>\$ 7,663,750</u>	<u>\$ -</u>	<u>\$ 7,663,750</u>	<u>\$ 429,622</u>	<u>\$ 7,702,479</u>	468,351
General revenues:						
Membership dues						61,912
Miscellaneous income						35,116
Unrestricted investment income						<u>21,660</u>
Total general revenues						<u>118,688</u>
Change in net position						587,039
Net position, beginning						<u>2,942,120</u>
Net position, ending						<u>\$ 3,529,159</u>

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

HEART OF TEXAS COUNCIL OF GOVERNMENTS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2023

	<u>General</u>
ASSETS	
Cash and investments	\$ 415,996
Due from grantor agencies	1,148,462
Lease receivable	110,653
Other receivables	6,045
Prepaid items	<u>13,989</u>
Total assets	<u>1,695,145</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	370,128
Accrued liabilities	33,651
Unearned revenue	58,333
Due to HOTEDD	<u>560,556</u>
Total liabilities	<u>1,022,668</u>
DEFERRED INFLOWS OF RESOURCES	
Lease related	<u>109,218</u>
Total deferred inflows of resources	<u>109,218</u>
Fund balance:	
Nonspendable - prepaid items	13,989
Unassigned	<u>549,270</u>
Total fund balance	<u>563,259</u>
Total liabilities and fund balance	<u>\$ 1,695,145</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.	\$ 5,568,097
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,823,913)
Deferred outflows/inflows of resources related to pensions are not reported in the funds.	<u>221,716</u>
Net position of governmental activities	<u>\$ 3,529,159</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	<u>General</u>
REVENUES	
Federal	\$ 4,117,909
State	2,836,359
Local	245,253
Program income/in-kind match	554,602
Lease income	413,094
Membership dues	61,912
Investment income	<u>21,660</u>
Total revenues	<u>8,250,789</u>
EXPENDITURES	
Current:	
General government	379,919
Aging	3,103,126
Transportation	1,440,694
Emergency communications	966,018
Health and human services	388,032
Homeland security	231,626
Economic development	160,674
Criminal justice	138,047
Environmental quality	314,643
Community development	11,515
Debt service:	
Principal	486,022
Interest	21,091
Capital outlay	<u>849,712</u>
Total expenditures	<u>8,491,119</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(240,330)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of SBITA	<u>136,436</u>
Total other financing sources (uses)	<u>136,436</u>
NET CHANGE IN FUND BALANCES	(103,894)
FUND BALANCE, BEGINNING	<u>667,153</u>
FUND BALANCE, ENDING	<u><u>\$ 563,259</u></u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Net change in fund balances - total governmental funds: \$ (103,894)

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. 310,162

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. 486,022

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. 31,185

The issuance of long-term debt (e.g. notes payable, leases, SBITAs) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (136,436)

Change in net position of governmental activities \$ 587,039

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

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 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 only fund. It accounts for all financial resources of the Council.

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. The Council's investment in pools is 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, 2023.

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 of more than 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
Right to use:	
Facility	25
Office space and parking	4
Equipment	5
Subscription	5

Unearned Revenue

Unearned revenue represents amounts received from grantors or program income received in excess of qualifying expenditures for programs in progress as of September 30, 2023.

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 statement element, *deferred outflows of resources*, represents a consumption of net assets 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 related to its pension plan that qualify for reporting in this category:

- Differences between expected and actual experience
- Changes in actuarial assumptions
- Contributions made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets 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 the following types of items related to its pension plan that qualify for reporting in this category:

- Differences between expected and actual experience
- Net difference between projected and actual investment earnings.

Compensated Absences

Employees in regular full-time 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.

Leases

The Council has entered into various lease agreements as both lessee and lessor. Key estimates and judgments related to leases include how the Council determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Council uses the interest rate charged by the lessor as the discount rate, if available. When the interest rate charged by the lessor is not provided, the Council generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Council is reasonably certain to exercise.

The Council monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability or lease asset.

Lessee. The Council is a lessee for noncancellable leases of equipment, office space, and a facility. The Council recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. At the commencement of a lease, the Council initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor. The Council is a lessor in an arrangement for a building. In both the government-wide financial statements and the governmental fund financial statements, the Council initially measures the lease receivable and a deferred inflow of resources for the present value of payments expected to be made during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is recognized as revenue on a systematic basis over the life of the lease.

Subscription-Based Information Technology Arrangements

The Council has an agreement for a subscription-based IT arrangements (SBITAs). The Council recognizes liability and an intangible right-to-use asset in the government-wide financial statements.

At the commencement of a SBITA, the Council initially measures the liability at the present value of payments expected to be made during the agreement term. Subsequently, the liability is reduced by the principal portion of payments made. The asset is initially measured as the initial amount of the liability, adjusted for payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to SBITAs include how the Council determines (1) the discount rate it uses to discount the expected payments to present value, (2) agreement term, and (3) agreed upon payments.

- The Council uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Council generally uses its estimated incremental borrowing rate as the discount rate.
- The agreement term includes the noncancellable period of the SBITA.
- The agreed upon payments included in the measurement of the liability are composed of fixed payments and purchase option price that the Council is reasonably certain to exercise.

The Council monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure the asset and liability if certain changes occur that are expected to significantly affect the amount of the liability. These right to use assets are reported with other capital assets and liabilities are reported with long-term debt on the statement of net position.

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 TCERS's fiduciary net position have been determined on the same basis as they are reported by TCERS. 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. 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.

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. It is the Council's policy to utilize a fixed rate that is used for billing purposes during the fiscal year. The Council uses a fixed-rate plus carry-forward provision. The rates are based on projected costs submitted in a Cost Allocation Plan. Final costs not recovered by the billing rates are allowed 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 amount of such services is recorded in the accompanying financial statements at the estimated fair value at the 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 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, 2023, 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, 2023, 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>\$ 512,957</u>	28	AAAm

TexPool is a qualifying external investment pool that measures for financial reporting purposes all 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.

Lease Receivable

On January 1, 2013, the Council entered into an agreement as lessor to lease a building to the Heart of Texas Workforce Development Board (HOTWDB) for the operation of the Workforce Center. A new lease agreement was signed and effective as of January 1, 2023.

A summary of the Council's lease receivable as of September 30, 2023, is as follows:

<u>Purpose of Lease</u>	<u>Interest Rate</u>	<u>Initial Year of Lease</u>	<u>Amount of Initial Lease Receivable</u>	<u>Interest Current Year</u>	<u>Lease Receivable 9/30/23</u>
Right to Use:					
Building	3.5%	2023	\$ 436,871	<u>\$ 8,246</u>	<u>\$ 110,653</u>

Capital Assets

Capital asset activity for the year ended September 30, 2023, 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	<u>\$ 690,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 690,000</u>
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	57,509	-	2,867,509
Machinery and equipment	2,928,116	720,155	-	3,648,271
Right to use:				
Facility	6,012,277	-	-	6,012,277
Office space and parking	35,785	-	-	35,785
Equipment	33,249	-	-	33,249
Subscription	<u>-</u>	<u>136,436</u>	<u>-</u>	<u>136,436</u>
Total capital assets being depreciated	<u>11,819,427</u>	<u>914,100</u>	<u>-</u>	<u>12,733,527</u>
Less accumulated depreciation:				
Buildings and improvements	1,369,250	81,752	-	1,451,002
Machinery and equipment	2,184,005	245,373	-	2,429,378
Right to use:				
Facility	3,659,647	261,403	-	3,921,050
Office space and parking	22,365	8,946	-	31,311
Equipment	16,225	6,464	-	22,689
Subscription	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>7,251,492</u>	<u>603,938</u>	<u>-</u>	<u>7,855,430</u>
Total capital assets, being depreciated, net	<u>4,567,935</u>	<u>310,162</u>	<u>-</u>	<u>4,878,097</u>
Governmental activities capital assets, net	<u>\$ 5,257,935</u>	<u>\$ 310,162</u>	<u>\$ -</u>	<u>\$ 5,568,097</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 91,089
Aging	101,789
Transportation	254,467
Emergency communications	54,803
Homeland security	21,429
Health and human services	42,859
Environmental quality	8,036
Criminal justice	10,715
Community development	2,679
Economic development	<u>16,072</u>
Total depreciation expense - governmental activities	<u>\$ 603,938</u>

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, 2023, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in One Year
Governmental activities:					
Notes payable	\$ 480,257	\$ -	\$ 217,466	\$ 262,791	\$ 226,446
Leases	2,420,436	-	268,556	2,151,880	265,020
SBITA payable	-	136,436	-	136,436	25,414
Compensated absences	158,732	111,429	120,322	149,839	134,855
Total	<u>\$ 3,059,425</u>	<u>\$ 247,865</u>	<u>\$ 606,344</u>	<u>\$ 2,700,946</u>	<u>\$ 651,735</u>

Notes Payable

The Council issued a note payable for the purchase of land, a building, and related furnishings. The note was issued in 2004 in an original amount of \$2,975,000, has an interest rate of 4.937%, 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
2024	\$ 226,446	\$ 8,137	\$ 234,583
2025	36,345	244	36,589
Total	<u>\$ 262,791</u>	<u>\$ 8,381</u>	<u>\$ 271,172</u>

Leases

The Council has entered into multiple leases as lessee for a facility, office space and parking, and equipment. The lease terms range from 48 to 300 months. The Council is required to make monthly payments ranging from \$249 to \$21,643.

A summary of the governmental activities long-term lease payable as of September 30, 2023, is as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Lease Liability	Interest Current Year	Amounts Outstanding 9/30/23
Right to Use:					
Facility	3.50%	2008	\$ 6,012,277	\$ 6,967	\$ 2,135,921
Office space and parking	3.50%	2019	35,785	343	4,751
Postage meter	3.50%	2020	19,541	336	7,553
Copier	3.50%	2020	13,708	181	3,655
Totals				<u>\$ 7,827</u>	<u>\$ 2,151,880</u>

Annual lease payments to maturity are as follows:

Year Ending September 30,	Lease Payable		Total Requirements
	Principal	Interest	
2024	\$ 265,020	\$ 6,562	\$ 271,582
2025	266,430	5,559	271,989
2026	262,775	4,726	267,501
2027	263,541	3,960	267,501
2028	272,335	3,191	275,526
2029-2031	821,779	4,798	826,577
Totals	<u>\$ 2,151,880</u>	<u>\$ 28,796</u>	<u>\$ 2,180,676</u>

SBITA Payable

During the fiscal year, the Council held a subscription for the use of software. An initial subscription liability was recorded in the amount of \$136,436. As of September 30, 2023, the value of the subscription liability is \$136,436. The Council is required to make annual fixed payments of \$2,482. The subscriptions have an interest rate of 3.5%. The value of the right to use asset as of September 30, 2023, is \$136,436.

Debt service requirements on SBITA payable as of September 30, 2023, are as follows:

Year Ending September 30	Governmental Activities - SBITA		
	Principal	Interest	Total
2024	\$ 25,414	\$ 4,370	\$ 29,784
2025	26,318	3,466	29,784
2026	27,254	2,530	29,784
2027	28,223	1,561	29,784
2028	29,227	557	29,784
Total	<u>\$ 136,436</u>	<u>\$ 12,484</u>	<u>\$ 148,920</u>

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 the 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, 2023, 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 annual comprehensive financial report (ACFR) 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 temporary positions are not eligible for membership.

Benefits Provided

TCDRS provides retirement, disability and survivor benefits for all 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 ten 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.

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

Employee deposit rate	4%
Matching ratio (Council to employee)	250%
Years required for vesting	2.5 to 1
Service retirement eligibility	10
	30 years at any age, 10 years at age 60 and above

Employees covered by benefit terms

At the December 31, 2022, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>28</u>
	<u>39</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 8.26% for fiscal year 2023. The Council's contributions to TCDRS for the year ended September 30, 2023, were \$131,358 and were equal to the required contributions.

Net Pension Liability (Asset)

The Council's Net Pension Liability (Asset) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Investment rate of return	7.50%, net of administration and investment expenses, including inflation

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

Depositing members	135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Service retirees, beneficiaries and non-depositing members	135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Disabled retirees	160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

All actuarial assumptions that determined the total pension liability as of December 31, 2021, were based on the results of an actuarial experience study for the period January 1, 2017 - December 31, 2020, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 7.5%, net of administrative and investment expenses, including inflation and was determined using a building-block method. Ranges of expected future real rates of return (expected returns, net of pension-plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation.

The target allocation and best estimates of geometric real rates return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
U.S. Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.95%
Global Equities	MSCI World (net) Index	2.50%	4.95%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	5.00%	4.95%
Int'l Equities - Emerging Markets	MSCI EM Standard (net) Index	6.00%	4.95%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond index	3.00%	2.40%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.95%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	7.60%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	5.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	7.95%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash Equivalents	90-Day U.S. Treasury	2.00%	0.20%

⁽¹⁾ Target asset allocation adopted at the March 2023 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.3% per Cliffwater's 2023 capital market assumptions.

⁽³⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

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

⁽⁵⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the total pension liability was 7.6%. Cost-of-living adjustments for the Council are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in either the GASB 68 calculations or the funding valuation, unchanged from that of the previous year. The projection of cash flows used to determine this discount rate assumed that plan members and the employer contributed at the statutorily required rates. Based on that assumption, the pension plan's fiduciary net position was projected to be sufficient to make all future benefit payments to current members of the plan. Therefore, the long-term expected rate of return on pension-plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance as of December 31, 2021	\$ 1,416,108	\$ 1,485,878	\$ (69,770)
Changes for the year:			
Service cost	179,854	-	179,854
Interest on total pension liability ⁽¹⁾	121,060	-	121,060
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	18,527	-	18,527
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	(6,242)	(6,242)	
Administrative expenses	-	(941)	941
Member contributions	-	66,102	(66,102)
Net investment income	-	(103,850)	103,850
Employer contributions	-	136,505	(136,505)
Other ⁽³⁾	-	28,888	(28,888)
Balance as of December 31, 2022	<u>\$ 1,729,307</u>	<u>\$ 1,606,340</u>	<u>\$ 122,967</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 (asset) of the Council, calculated using the discount rate of 7.6%, as well as what the Council's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.6%) or 1-percentage-higher (8.6%) than the current rate:

	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Total pension liability	\$ 1,955,927	\$ 1,729,307	\$ 1,538,084
Fiduciary net position	<u>1,606,340</u>	<u>1,606,340</u>	<u>1,606,340</u>
Net pension liability (asset)	<u>\$ 349,587</u>	<u>\$ 122,967</u>	<u>\$ (68,256)</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, 2023, the Council recognized pension expense of \$112,429.

As of September 30, 2023, 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	\$ 3,383	\$ 24,894
Changes in actuarial assumptions	2,359	36,023
Net difference between projected and actual investment earnings	-	68,187
Contributions made subsequent to the measurement date	-	98,354
Total	<u>\$ 5,742</u>	<u>\$ 227,458</u>

\$98,354 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 total pension liability (asset) for the year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	
2024	\$ 18,009
2025	27,715
2026	27,198
2027	47,353
2028	3,087

5. FORTHCOMING ACCOUNTING STANDARDS

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the Council include the following:

The GASB has amended the existing standards regarding capitalization thresholds for assets. The amended guidance for the capitalization threshold comes from GASB Implementation Guide 2021-1, Question 5.1. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture and library books are examples of asset types that may not meet a capitalization policy on an individual basis yet could be significant collectively. In this example, if the \$150,000 aggregate amount (100 computers costing \$1,500 each) is significant, the government should capitalize the computers. The amended guidance is effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 100, Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62 - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 101, Compensated Absences - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

GASB Statement No. 102, Certain Risk Disclosures - This Statement requires governments to disclose essential information about risks related to vulnerabilities due to certain concentrations or constraints. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of Statement No. 102 are effective for fiscal years beginning after June 15, 2024, and the impact has not yet been determined.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Plan Year Ended December 31	2015	2016	2017
Total Pension Liability			
Service Cost	\$ 40,740	\$ 180,990	\$ 164,519
Interest total pension liability	1,614	10,621	31,004
Effect of plan changes	(713)	-	-
Effect of assumption changes or inputs	583	-	2,220
Effect of economic/demographic (gains) or losses	171	(15,611)	(2,938)
Benefit payments/refunds of contributions	-	-	(309)
Net change in total pension liability	42,395	176,000	194,496
Total pension liability - beginning	-	42,395	218,395
Total pension liability - ending (a)	<u>\$ 42,395</u>	<u>\$ 218,395</u>	<u>\$ 412,891</u>
Plan Fiduciary Net Position			
Employer contributions	\$ 26,103	\$ 99,023	\$ 100,773
Member contributions	15,221	57,740	58,082
Investment income net of investment expenses	(351)	3,125	32,392
Benefit payments refunds of contributions	-	-	(309)
Administrative expenses	(15)	(34)	(264)
Other	(2)	3,633	2,121
Net change in plan fiduciary net position	40,956	163,487	192,795
Plan fiduciary net position - beginning	-	40,956	204,443
Plan fiduciary net position - ending (b)	<u>40,956</u>	<u>204,443</u>	<u>397,238</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$ 1,439</u>	<u>\$ 13,952</u>	<u>\$ 15,653</u>
Fiduciary net position as a percentage of total pension liability (asset)	97%	94%	96%
Pensionable covered payroll	\$ 1,522,022	\$ 1,443,496	\$ 1,452,053
Net pension liability as a percentage of covered payroll	0.1%	0.97%	1.08%

This schedule is required to present ten years of information. This information will be presented as it becomes available.

2018	2019	2020	2021	2022
\$ 160,433	\$ 158,700	\$ 159,761	\$ 175,693	\$ 179,854
46,381	63,178	81,827	101,088	121,060
-	-	-	-	-
-	-	70,807	(3,540)	18,527
4,413	13,917	7,072	(1,045)	-
(1,457)	(2,826)	(10,561)	(20,624)	(6,242)
209,770	232,969	308,906	251,572	313,199
412,891	622,661	855,630	1,164,536	1,416,108
<u>\$ 622,661</u>	<u>\$ 855,630</u>	<u>\$ 1,164,536</u>	<u>\$ 1,416,108</u>	<u>\$ 1,729,307</u>
\$ 101,023	\$ 106,113	\$ 113,075	\$ 117,143	\$ 136,505
57,892	60,119	63,257	65,533	66,102
(5,642)	90,704	84,280	252,949	(103,850)
(1,457)	(2,825)	(10,561)	(20,624)	(6,242)
(444)	(619)	(782)	(804)	(941)
4,731	5,708	4,986	4,885	28,888
156,103	259,200	254,255	419,082	120,462
397,238	553,341	812,541	1,066,796	1,485,878
553,341	812,541	1,066,796	1,485,878	1,606,340
<u>\$ 69,320</u>	<u>\$ 43,089</u>	<u>\$ 97,740</u>	<u>\$ (69,770)</u>	<u>\$ 122,967</u>
89%	95%	92%	105%	93%
\$ 1,447,300	\$ 1,502,986	\$ 1,581,427	\$ 1,638,336	\$ 1,652,559
4.79%	2.87%	6.18%	-4.26%	7.44%

HEART OF TEXAS COUNCIL OF GOVERNMENTS**SCHEDULE OF EMPLOYER CONTRIBUTIONS****FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2023	\$ 133,603	\$ 133,603	\$ -	\$ 1,671,734	7.99%
2022	131,358	131,358	-	1,646,864	7.98%
2021	116,363	116,363	-	1,627,508	7.15%
2020	112,341	112,341	-	1,576,346	7.13%
2019	103,600	103,600	-	1,471,706	7.04%
2018	100,850	100,850	-	1,446,974	6.97%
2017	100,323	100,323	-	1,449,834	6.92%
2016	99,680	99,680	-	1,444,644	6.90%

This schedule is required to present ten years of information. This information will be presented as it becomes available.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Methods and assumptions used to determine contributions rates:	
Actuarial Cost Method	Entry Age (level percentage of pay)
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	18.1 years (based on contribution rate calculated in 12/31/2022)
Asset Valuation Method:	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.5%
Salary Increases	Varies by age and service. 4.7% average over career including inflation.
Investment Rate of Return	7.50%, net of administrative and 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	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected. 2022: New investment return and inflation assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2019: Employer contributions reflect that the current service matching rate was increased to 150% for future benefits. 2020: No changes in plans provisions were reflected in the Schedule. 2021: No changes in plans provisions were reflected in the Schedule. 2022: No changes in plans provisions were reflected in the Schedule.

**SUPPLEMENTARY
INFORMATION**

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES BY OBJECT

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Texas Department of Aging and Disability Services	Texas Governor's Office *	Texas Department of Agriculture	Texas Department of Transportation	Texas Commission on Environmental Quality
EXPENDITURES					
Salaries	\$ 371,853	\$ 39,057	\$ 4,626	\$ 141,599	\$ 28,228
Benefits	163,751	17,193	2,035	62,332	12,427
Delegate agencies	2,159,039	24,493	-	-	-
Contractual services	45,434	18,683	-	744,728	242,438
Office space	13,586	971	366	3,537	1,347
Supplies and materials	7,665	2,485	-	216,423	13
Travel	28,554	4,955	-	2,209	3,330
Repairs and maintenance	-	-	-	98,071	-
Utilities/telephone	4,148	725	43	18,495	433
Other	28,572	30	985	46,516	5,139
Debt service:					
Principal	62,213	4,587	1,634	25,080	6,028
Interest	1,798	139	45	782	168
Capital outlay	-	-	-	656,340	-
Indirect cost allocation	<u>280,524</u>	<u>29,455</u>	<u>3,487</u>	<u>106,784</u>	<u>21,288</u>
Total expenditures	<u>\$ 3,167,137</u>	<u>\$ 142,773</u>	<u>\$ 13,221</u>	<u>\$ 2,122,896</u>	<u>\$ 320,839</u>

* Does not include funds passed through from the U.S. Department of Homeland Security. Those are presented in a separate column.

<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>Texas Department of Housing & Community Affairs</u>	<u>Local</u>	<u>Total</u>
\$ 89,341	\$ 62,774	\$ 79,439	\$ 161,894	\$ -	\$ -	\$ 978,811
39,328	27,634	34,965	71,264	-	-	430,929
722,260	-	-	-	-	-	2,905,792
29,554	10,150	37,497	5,642	-	-	1,134,126
4,632	2,701	3,564	3,944	-	-	34,648
3,758	1,042	7,110	2,013	-	-	240,509
3,141	7,998	3,600	1,019	-	-	54,806
-	-	-	-	-	-	98,071
1,170	1,038	2,388	-	-	-	28,440
5,463	-	3,162	20,175	(27)	379,919	489,934
21,005	12,362	16,118	17,702	-	319,293	486,022
597	357	456	494	-	16,255	21,091
-	-	193,372	-	-	-	849,712
<u>67,371</u>	<u>47,337</u>	<u>59,901</u>	<u>122,081</u>	<u>-</u>	<u>-</u>	<u>738,228</u>
<u>\$ 987,620</u>	<u>\$ 173,393</u>	<u>\$ 441,572</u>	<u>\$ 406,228</u>	<u>\$ (27)</u>	<u>\$ 715,467</u>	<u>\$ 8,491,119</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

YEAR ENDED SEPTEMBER 30, 2023

	Budget	Actual	Variance
INDIRECT COSTS			
Salaries	\$ 431,295	\$ 422,723	\$ 8,572
Benefits	189,876	186,083	3,793
Total indirect salaries and benefits	<u>621,171</u>	<u>608,806</u>	<u>12,365</u>
Travel	10,000	9,087	913
Supplies	4,000	4,366	(366)
Legal fees	500	306	194
Audit	34,500	34,500	-
Space costs	115,800	117,759	(1,959)
Communications	10,800	12,013	(1,213)
Copies/printing	5,700	5,785	(85)
Computer costs	55,100	55,453	(353)
Postage	7,600	6,737	863
Insurance/bonding	4,500	4,994	(494)
Dues/subscriptions/publications	17,000	14,505	2,495
Other costs/miscellaneous	4,000	7,414	(3,414)
Prior period carryforward	<u>(33,459)</u>	<u>-</u>	<u>(33,459)</u>
Total other indirect costs	<u>236,041</u>	<u>272,919</u>	<u>(36,878)</u>
Total indirect costs	857,212	881,725	(24,513)
Less: HOTEDD admin/fiscal contracts	<u>(57,849)</u>	<u>(57,849)</u>	<u>-</u>
Net indirect costs	<u>\$ 799,363</u>	<u>823,876</u>	<u>\$ (24,513)</u>
Indirect costs recovered		<u>(738,228)</u>	
Current year over (under) recovery to be recaptured in future years		(85,648)	
Over (under) recovery carried forward from previous years		<u>(61,124)</u>	
Cumulative over (under) recovery to be recovered in future years		<u>\$ (146,772)</u>	
CALCULATION OF INDIRECT COST RATE:			
Adjusted gross salaries	\$ 1,491,396	\$ 1,401,534	
Net fringe benefits recovered	656,514	617,013	
Less: indirect salaries and benefits	<u>(621,171)</u>	<u>(608,806)</u>	
Total program personnel costs	<u>\$ 1,526,739</u>	<u>\$ 1,409,741</u>	
Indirect rate	<u>52.36%</u>	<u>58.44%</u>	

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FRINGE BENEFITS

YEAR ENDED SEPTEMBER 30, 2023

	<u>Actual</u>	<u>Budget</u>
Payroll taxes	\$ 101,399	\$ 129,387
Group insurance	189,074	186,667
Retirement contribution	133,600	135,138
Release time	262,695	199,944
Prior period carryforward	<u>-</u>	<u>5,378</u>
TOTAL FRINGE BENEFITS	<u>\$ 686,768</u>	<u>\$ 656,514</u>
TOTAL WAGES	\$ 1,401,534	\$ 1,491,396
EMPLOYEE BENEFIT RATE	49.00%	44.02%
FRINGE BENEFITS RECOVERED	<u>\$ 617,013</u>	
CURRENT YEAR OVER (UNDER) RECOVERY TO BE RECAPTURED IN FUTURE YEARS	(69,755)	
OVER (UNDER) RECOVERY CARRIED FORWARD FROM PREVIOUS YEARS	<u>(23,886)</u>	
CUMULATIVE OVER (UNDER) RECOVERY TO BE RECOVERED IN FUTURE YEARS	<u>\$ (93,641)</u>	

SINGLE AUDIT SECTION

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

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 the major fund of the Heart of Texas Council of Governments (the "Council") as of and for the year ended September 30, 2023, 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 22, 2024.

Report on 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) as a basis for designing 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 Council's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on 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 financial statements. 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*.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

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 Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas
April 22, 2024



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

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited the Heart of Texas Council of Governments' (the "Council") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* and the *Texas Grant Management Standards (TXGMS)* 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*; and *TXGMS*. Our responsibilities under those standards, the *Uniform Guidance* and *TXGMS* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Council and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of the Council's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Council's federal and state programs.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Council's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the *Uniform Guidance*, and *TXGMS* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Council's compliance with the requirements of each major federal and state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the *Uniform Guidance*, and *TXGMS*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Council's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Council's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Guidance* and *TXGMS*, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 and state programs 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 and state programs 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 and state programs 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 Auditor's Responsibilities for the Audit of Compliance section above 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 and significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 *TXGMS*. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
April 22, 2023

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing 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	ED21AUS3020006	\$ 70,000	\$ -
Total Heart of Texas Economic Development District			70,000	-
Total U. S. Department of Commerce			70,000	-
<u>U. S. Department of Housing and Urban Development</u>				
Passed through the Texas Department of Agriculture:				
TxCDBG - CEDAF Technical Assistance (CDBG - Entitlement Grants Cluster)	14.218	CEDAF 21-15	11,295	-
TxCDBG - CEDAF Technical Assistance (CDBG - Entitlement Grants Cluster)	14.218	CEDAF 23-15	1,056	-
Total Entitlement Grants Cluster			12,351	-
Total Texas Department of Agriculture			12,351	-
Passed through the Texas Department of Housing and Community Affairs:				
TxCDBG - Texas Emergency Mortgage Assistance Program (TEMAP)	14.228	70700001020	(27)	-
Total Texas Department of Housing and Community Affairs			(27)	-
Total U. S. Department of Housing and Urban Development			12,324	-
<u>U. S. Department of Justice</u>				
Passed through Texas Governor's Office, Criminal Justice Division:				
COVID-19 - Coronavirus Emergency Supplemental Funding (CESF)	16.034	4355501	19,466	-
Total Texas Governor's Office, Criminal Justice Division			19,466	-
Total U. S. Department of Justice			19,466	-
<u>U. S. Department of Transportation</u>				
Passed through the Texas Department of Transportation:				
Short Range Transit Planning Section 5304	20.505	51008021823	6,094	-
Short Range Transit Planning Section 5304	20.505	51008010924	699	-
Subtotal 20.505			6,793	-
Rural Public Transportation Section 5311	20.509	51018011822	415,394	-
Rural Public Transportation Section 5311	20.509	51018011823	414,629	-
Bus and Bus Facilities Program (Rural) & Federal 5311	20.509	51003F20923	519,904	-
Rural Public Transportation Section 5311 - Scholarships	20.509	51R18A16123	1,746	-
Subtotal 20.509			1,351,673	-
Total Texas Department of Transportation			1,358,466	-
Total U. S. Department of Transportation			1,358,466	-

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, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL AWARDS (Continued)				
<u>U. S. Department of the Treasury</u>				
Passed through the Texas Commission on State Emergency Communications:				
COVID-19 ARP 911 Emergency Communications	21.027	CSEC 2021	\$ 72,566	\$ -
Total Texas Commission of Emergency Communications			72,566	-
Total U. S. Department of the Treasury			72,566	-
<u>U. S. Department of Health and Human Services</u>				
Passed through Texas Department of Aging and Disability Services:				
Title VII EAP	93.041	539-16-0019-00001	1,500	-
Subtotal 93.041			1,500	-
2023 Title VII - OM	93.042	539-16-0019-00001	10,610	-
2023 PY Title VII - EAP	93.042	539-16-0019-00001	3,632	-
2023 PY Title VII - OM	93.042	539-16-0019-00001	21,505	-
COVID-19 2023 ARP Title VII - OM	93.042	539-16-0019-00001	6,723	-
Subtotal 93.042			42,470	-
2022 Title III - D Evidence Based Intervention	93.043	539-16-0019-00001	1,553	-
2023 Title III - D Evidence Based Intervention	93.043	539-16-0019-00001	4,588	-
2023 PY Title III - D	93.043	539-16-0019-00001	22,248	-
COVID-19 2022 ARP Title III - D Evidence Based Intervention	93.043	539-16-0019-00001	13,509	-
Subtotal 93.043			41,898	-
Expanding Public Health Workforce	93.044	539-16-0019-00001	10,305	-
2022 Title III - B	93.044	539-16-0019-00001	4,646	-
2023 PY Title III - B	93.044	539-16-0019-00001	383,038	-
COVID-19 2023 ARP Title III - B	93.044	539-16-0019-00001	230,035	-
2023 Title III - B	93.044	539-16-0019-00001	49,734	-
2022 Title III - C1	93.045	539-16-0019-00001	7,519	7,519
2022 Title III - C2	93.045	539-16-0019-00001	(5,030)	(5,030)
2022 Title III Expanding Public Health Expansion	93.045	539-16-0019-00001	(300)	-
COVID-19 2023 Disaster Flex Title III-C1	93.045	539-16-0019-00001	256,924	256,924
2023 Title III - C1	93.045	539-16-0019-00001	222,706	222,706
2023 Title III - C2	93.045	539-16-0019-00001	356,572	356,572
2023 PY Title III - C2	93.045	539-16-0019-00001	51,571	51,751
COVID-19 2023 ARP Title III - C2	93.045	539-16-0019-00001	157,962	157,962
2023 Nutrition Services Incentive Program	93.053	539-16-0019-00001	187,509	187,509
Subtotal Aging Cluster			1,913,191	1,235,913
2023 PY Title III - E	93.052	539-16-0019-00001	126,020	-
2023 Title III - E	93.052	539-16-0019-00001	41,595	-
COVID-19 2023 ARP Title III - E	93.052	539-16-0019-00001	44,644	-
Subtotal 93.052			212,259	-
Medicare Improvements for Patients & Providers Act	93.071	539-16-0019-00001	31,512	-
2023 PY ACL Medicare Improvements for Patients & Providers Act	93.071	539-16-0019-00001	5,254	-
2023 ADRC Medicare Improvements for Patients & Providers Act	93.071	HHS000270200023	9,748	-
Subtotal 93.071			46,514	-

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, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing 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 (cont.)</u>				
Passed through Texas Department of Aging and Disability Services (cont.):				
2023 ADRC Texas Lifespan Program	93.072	HHS000270200023	\$ 15,318	\$ -
2024 ADRC Texas Lifespan Program	93.072	HHS000270200023	386	-
Subtotal 93.072			15,704	-
2023 Health Information, Counseling, and Advocacy Program (HICAP)	93.324	539-16-0019-00001	39,215	-
Subtotal 93.324			39,215	-
COVID-19 2023 ARP Elder Justice Act Ombudsman - Staff	93.747	539-16-0019-00001	1,500	-
Subtotal 93.747			1,500	-
2023 ADRC Housing Navigator	93.791	HHS000270200023	38,513	-
2023 ADRC Local Contact Agency (OC)	93.791	HHS000270200023	6,712	-
2024 ADRC Housing Navigator	93.791	HHS000270200023	2,609	-
2024 ADRC Local Contact Agency (OC)	93.791	HHS000270200023	377	-
Subtotal 93.791			48,211	-
Total Texas Department of Aging and Disability Services			2,362,462	1,235,913
Total U. S. Department of Health and Human Services			2,362,462	1,235,913
<u>U. S. Department of Homeland Security</u>				
Passed through Texas Governor's Office, Homeland Security Grants Division:				
2022 Homeland Security Grant Program - Regional Planning	97.067	2954107	35,839	-
2022 Homeland Security Grant Program - Regional Citizen Corps Program	97.067	2954007	8,968	-
2022 Homeland Security Grant Program - Regional Planning	97.067	2954108	117,697	-
2023 Homeland Security Grant Program - Regional Citizen Corps Program	97.067	2954008	6,631	-
2023 Homeland Security Grant Program - ENS Information Sharing	97.067	2953608	36,432	-
Bomb Making Materials Awareness Program	97.067	4468801	17,058	-
Total Texas Governor's Office, Homeland Security Grants Division			222,625	-
Total U. S. Department of Homeland Security			222,625	-
Total Federal Awards			\$ 4,117,909	\$ 1,235,913

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued) YEAR ENDED SEPTEMBER 30, 2023

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures	Passed Through to Subrecipients
STATE AWARDS			
<u>Texas Commission on Environmental Quality</u>			
Solid Waste Planning	582-22-30117	\$ 136,992	\$ -
Solid Waste Planning	582-24-50088	6,755	-
Air Quality	582-20-10505	<u>173,100</u>	<u>-</u>
Total Texas Commission on Environmental Quality		<u>316,847</u>	<u>-</u>
<u>Texas Governor's Office, Criminal Justice Division</u>			
2022-2023 Regional Law Enforcement Training	1784712	74,479	-
2021-2022 Regional Law Enforcement Training	1784713	8,913	-
2022-2023 Purchase of Juvenile Justice Alternatives	1424124	<u>26,289</u>	<u>-</u>
Total Texas Governor's Office, Criminal Justice Division		<u>109,681</u>	<u>-</u>
<u>Texas Governor's Office, Homeland Security Division</u>			
Regional Communication Infrastructure	3978401	196,666	-
Regional Communication Infrastructure	4559401	<u>7,066</u>	<u>-</u>
Total Texas Governor's Office, Homeland Security Division		<u>203,732</u>	<u>-</u>
Total Texas Governor's Office		<u>313,413</u>	<u>-</u>
<u>Texas Department of Aging and Disability Services</u>			
2023 State General Revenue (SGR) - ARP	539-16-0019-00001	59,025	59,025
2023 State General Revenue (SGR) - Other	539-16-0019-00001	95,467	-
2023 State General Revenue (SGR) - Title III-E Match	539-16-0019-00001	2,507	-
2023 Assisted Living Facility Long-Term Care Ombudsman	539-16-0019-00001	20,442	-
2024 Assisted Living Facility Long-Term Care Ombudsman	539-16-0019-00001	1,852	-
ADRC State General Revenue (SGR)	HHS000270200023	108,711	-
ADRC Promoting Independence	HHS000270200023	<u>13,414</u>	<u>-</u>
Total Texas Department of Aging and Disability Services		<u>301,418</u>	<u>59,025</u>
<u>Texas Commission on State Emergency Communications</u>			
2020 - 911 Emergency Communications	N/A	(670)	-
2021 - 911 Emergency Communications	N/A	177,044	-
2022 - 911 Emergency Communications	N/A	6,779	-
2023 - 911 Emergency Communications	N/A	705,489	-
2024 - 911 Emergency Communications	N/A	<u>25,625</u>	<u>-</u>
Total Texas Commission on State Emergency Communications		<u>914,267</u>	<u>-</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, 2023

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures	Passed Through to Subrecipients
STATE AWARDS (Continued)			
<u>Texas Department of Transportation</u>			
Rural Public Transportation - Section 5311	51218010923	\$ 584,186	\$ -
Total Texas Department of Transportation		<u>584,186</u>	<u>-</u>
<u>Texas Health and Human Services Commission</u>			
2022-2023 211 Area Information - Operational	HHS000979200014	353,598	-
2022-2023 211 Area Information - Childcare	HHS000979200014	5,153	-
2022-2023 211 Area Information - Covid-19	HHS000979200014	9,025	-
2023-2024 211 Area Information - Operational	HHS000979200014	37,649	-
2023-2024 211 Area Information - Childcare	HHS000979200014	441	-
2023-2024 211 Area Information - Covid-19	HHS000979200014	<u>362</u>	<u>-</u>
Total Texas Health and Human Services Commission		<u>406,228</u>	<u>-</u>
Total State Awards		\$ <u>2,836,359</u>	\$ <u>59,025</u>
Total Federal and State Awards		\$ <u>6,954,268</u>	\$ <u>1,294,938</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EXPENDITURES OF

FEDERAL AND STATE AWARDS

SEPTEMBER 30, 2023

1. GENERAL

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards programs of the Council. 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 *Texas Grant Management Standards ("TxGMS")*. 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. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Grant expenditure reports as of September 30, 2023, 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.

4. INDIRECT COSTS

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

5. 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.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Summary of Auditor's 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 Texas Grant Management Standards?	No
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Identification of major programs:

Assistance Listing Number:	Name of Program or Cluster:
#20.509	Rural Public Transportation - Section 5311
State	Rural Public Transportation - Section 5311

Dollar threshold used to distinguish between type A and type B federal programs	\$750,000
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Dollar threshold used to distinguish between type A and type B state programs	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal and State Awards

None



Judge Jay Elliott
President

Mayor Geary Smith
Vice-President

Judge Richard Duncan
Secretary/Treasurer

Russell Devorsky
Executive Director

Heart of Texas
Council of Governments

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

FOR THE YEAR ENDED SEPTEMBER 30, 2023

None