HEART OF TEXAS COUNCIL OF GOVERNMENTS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2025

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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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, 2025, 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, 2025, 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 discussed in Note I to the basic financial statements, during the year ended September 30, 2025, the Council implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinions are 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 known information that may raise substantial doubt shortly thereafter.

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 February 18, 2026, 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
February 18, 2026

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

This section of the Heart of Texas Council of Governments' (the "Council") annual report offers a narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2025. 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, 2025, by $3,860,751 (net position). Of this amount, $741,338 represents the balance of unrestricted net position of the Council.

- The Council's total net position increased by $396,989 during the fiscal year.

- As of the close of the current fiscal year, the Council's General Fund reported an ending fund balance of $831,155, an increase of $168,124 in comparison with the prior year.

- As of September 30, 2025, unassigned fund balance in the General Fund was $804,073.

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 $3,860,751 as of September 30, 2025.

HEART OF TEXAS COUNCIL OF GOVERNMENTS' NET POSITION

	Governmental Activities	
	2025	2024
Current and other assets	$ 3,690,278	$ 3,820,133
Capital assets	4,869,940	4,854,784
Total assets	8,560,218	8,674,917
Deferred outflows of resources	182,542	210,876
Current liabilities	1,373,303	1,247,036
Noncurrent liabilities	2,010,993	2,262,269
Total liabilities	3,384,296	3,509,305
Deferred inflows of resources	1,497,713	1,912,726
Net position:		
Net investment in capital assets	3,119,413	2,818,258
Unrestricted	741,338	645,504
Total net position	$ 3,860,751	$ 3,463,762

By far, the largest portion of the Council's net position (81%) 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 $741,338 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, 2025.

HEART OF TEXAS COUNCIL OF GOVERNMENTS'
CHANGES IN NET POSITION

	Governmental Activities	
	2025	2024
Revenues:		
Program revenues:		
Charges for services	$ 441,781	$ 436,272
Operating grants and contributions	8,189,935	8,418,825
General revenues:		
Membership dues	61,902	62,032
Miscellaneous	32,377	85,761
Unrestricted investment income	64,197	56,492
Total revenues	8,790,192	9,059,382
Expenses after allocation of indirect costs:		
General government	357,373	318,511
Aging	3,153,810	3,617,013
Transportation	1,766,884	1,921,252
Emergency communications	968,693	1,496,272
Homeland security	934,472	694,124
Health and human services	455,544	436,871
Environmental quality	325,422	277,496
Criminal justice	122,151	147,253
Community development	11,657	11,384
Economic development	203,259	189,569
Interest on long-term debt	10,054	15,034
Total expenses after allocation of indirect costs	8,309,319	9,124,779
Change in net position	480,873	(65,397)
Net position, beginning, as previously presented	3,463,762	3,529,159
Restatement	(83,884)	-
Net position, beginning, as restated	3,379,878	-
Net position, ending	$ 3,860,751	$ 3,463,762

During the current year, the Council adopted new accounting guidance GASB Statement No. 101, *Compensated Absences*. As a result, the beginning net position for fiscal year 2025 has been restated to reflect this change in accounting principle. In accordance with GASB pronouncements, prior-year (2024) comparative information has not been restated. See note 5 to the financial statements for more information.

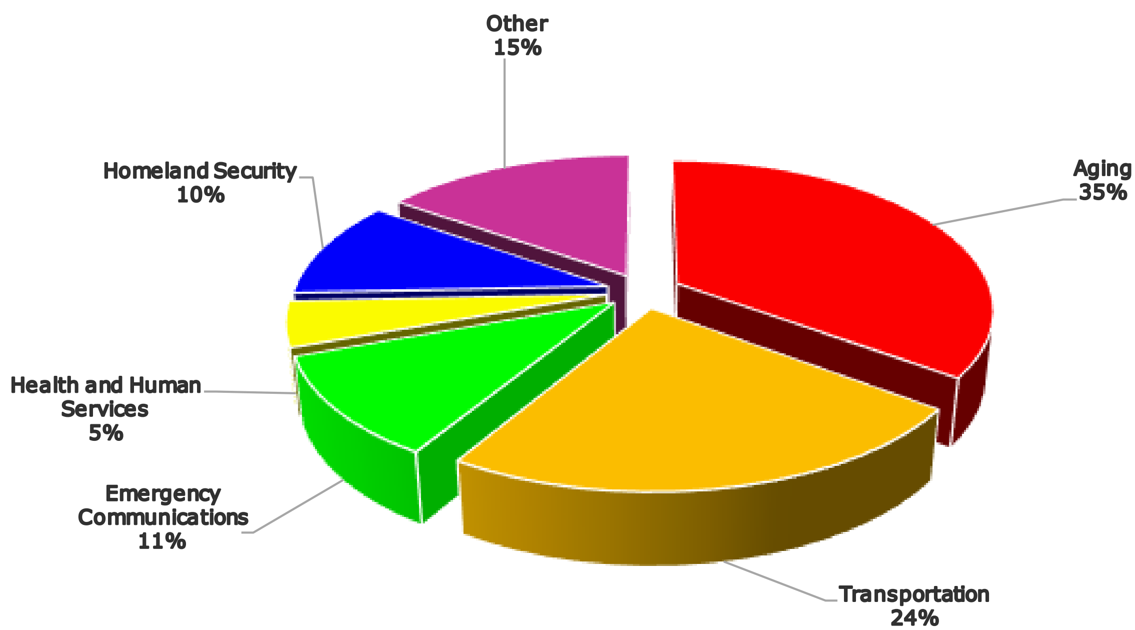
The Council experienced a decrease in revenues of $269,190 or 3% from 2024. Expenses decreased by $815,460 or 9% from the prior year. The Council's operations are driven primarily by federal and state grant funding, which can vary significantly from year to year. The current year saw significant decreases in expenses in the Aging program ($463,203), the Transportation program ($154,368), and the State Emergency Communications program ($527,579).

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 $831,155, an increase of $168,124 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, 2025, amounts to $4,869,940 (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	
	2025	2024
Capital assets:		
Land	$ 690,000	$ 690,000
Buildings and improvements	2,867,509	2,867,509
Machinery and equipment	3,541,696	3,567,828
Right to use	6,233,685	6,217,747
Less: accumulated depreciation	(8,462,950)	(8,488,300)
Total capital assets, net of accumulated depreciation	$ 4,869,940	$ 4,854,784

Capital asset additions and deletions during the year included the following:

- Purchases of buses and vehicles totaling $673,994 were exceeded by disposals of $721,506 for the Transportation program.
- Installation of HVAC and air conditioning upgrades of $21,380 for the Workforce building.

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

Long-term Liabilities

At the end of the current fiscal year, the Council had total long-term liabilities outstanding of $1,970,075.

	Governmental Activities	
	2025	2024
Governmental Activities:		
Notes payable	$ -	$ 38,644
Leases	1,665,793	1,886,860
SBITA payable	84,704	111,022
Compensated absences	219,578	226,343
Total	$ 1,970,075	$ 2,262,869

During the year, the Council paid off an outstanding note payable and entered into new leases for copier and postage equipment to replace expiring agreements.

Additional information on the Council's long-term liabilities 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 2026.

REQUESTS FOR INFORMATION

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

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BASIC
FINANCIAL STATEMENTS

HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2025

	Governmental Activities
ASSETS	
Cash and investments	$ 1,474,509
Receivables:	
Grantors	701,222
Lease	1,485,820
Other	1,645
Prepaid expenses	27,082
Capital assets:	
Land	690,000
Buildings and improvements	2,867,509
Machinery and equipment	3,541,696
Right to use	6,233,685
Less: accumulated depreciation	(8,462,950)
Total capital assets	4,869,940
Total assets	8,560,218
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	182,542
Total deferred outflows of resources	182,542
LIABILITIES	
Accounts payable	226,371
Unearned revenue	30,602
Due to HOTEDD	1,080,361
Accrued liabilities	35,969
Noncurrent liabilities:	
Due within one year:	
Leases, subscriptions, compensated absences	474,725
Due in more than one year:	
Leases, subscriptions, compensated absences	1,495,350
Net pension liability	40,918
Total liabilities	3,384,296
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	11,893
Deferred inflows of resources related to leases	1,485,820
Total deferred inflows of resources	1,497,713
NET POSITION	
Net investment in capital assets	3,119,413
Unrestricted	741,338
Total net position	$ 3,860,751

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, 2025

Functions/Programs	Expenses	Indirect Cost Allocation	Expenses After Allocation of Indirect Costs	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:						
General government	$ 352,212	$ 897	$ 353,109	$ 441,781	$ -	$ 88,672
Aging	2,735,115	418,695	3,153,810	-	3,139,918	(13,892)
Transportation	1,610,311	160,837	1,771,148	-	2,083,915	312,767
Emergency communications	875,464	93,229	968,693	-	951,562	(17,131)
Health and human services	308,231	147,313	455,544	-	436,342	(19,202)
Homeland security	829,149	105,323	934,472	-	933,465	(1,007)
Economic development	143,264	59,995	203,259	-	198,377	(4,882)
Criminal justice	91,772	30,379	122,151	-	114,489	(7,662)
Environmental quality	294,181	31,241	325,422	-	319,628	(5,794)
Community development	7,216	4,441	11,657	-	12,239	582
Indirect costs	1,052,350	(1,052,350)	-	-	-	-
Interest on long-term debt	10,054	-	10,054	-	-	(10,054)
Total governmental activities	$ 8,309,319	$ -	$ 8,309,319	$ 441,781	$8,189,935	322,397
General revenues:						
Membership dues						61,902
Miscellaneous income						32,377
Unrestricted investment income						64,197
Total general revenues						158,476
Change in net position						480,873
Net position, beginning, as previously reported						3,463,762
Restatement, change in accounting principle						(83,884)
Net position - beginning, as restated						3,379,878
Net position, ending						$ 3,860,751

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, 2025

	General
ASSETS	
Cash and investments	$ 1,474,509
Due from grantor agencies	701,222
Lease receivable	1,485,820
Other receivables	1,645
Prepaid items	27,082
Total assets	3,690,278
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	226,371
Accrued liabilities	35,969
Unearned revenue	30,602
Due to HOTEDD	1,080,361
Total liabilities	1,373,303
DEFERRED INFLOWS OF RESOURCES	
Lease related	1,485,820
Total deferred inflows of resources	1,485,820
Fund balance:	
Nonspendable - prepaid items	27,082
Unassigned	804,073
Total fund balance	831,155
Total liabilities and fund balance	$ 3,690,278

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.	$ 4,869,940
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,010,993)
Deferred outflows/inflows of resources related to pensions are not reported in the funds.	170,649
Net position of governmental activities	$ 3,860,751

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

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General
REVENUES	
Federal	$ 4,405,425
State	2,703,457
Local	263,716
Program income/in-kind match	867,249
Lease income	424,246
Membership dues	61,902
Investment income	64,197
Total revenues	8,790,192
EXPENDITURES	
Current:	
General government	269,476
Aging	3,051,165
Transportation	1,367,364
Emergency communications	934,047
Health and human services	419,458
Homeland security	908,698
Economic development	187,759
Criminal justice	114,405
Environmental quality	317,686
Community development	11,706
Debt service:	
Principal	334,876
Interest	10,054
Capital outlay	744,561
Total expenditures	8,671,255
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	118,937
OTHER FINANCING SOURCES (USES)	
Issuance of leases	49,187
Total other financing sources (uses)	49,187
NET CHANGE IN FUND BALANCES	168,124
FUND BALANCE, BEGINNING	663,031
FUND BALANCE, ENDING	$ 831,155

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

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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, 2025

Net change in fund balances - total governmental funds:	$	168,124
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.		15,496
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.		334,876
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.		11,564
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.		(49,187)
Change in net position of governmental activities	$	480,873

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

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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, 2025.

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:

Assets	Years
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, 2025.

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 eligible regular part-time positions accrue sick leave at a rate of one day per month and may accumulate up to 45 days. Unused sick leave is not paid upon separation; however, accumulated balances are used as paid time off in future periods.

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 and periods with one-way options to extend if it is reasonably certain that the party will exercise the option.

- 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 arrangement (SBITA). The Council recognizes a 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 TCDRS's fiduciary net position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Policies

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

Fund Balance Flow Assumption

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

Net Position Flow Assumption

Sometimes the Council will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. 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. <u>Revenues and expenditures/expenses</u>

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, 2025, 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, 2025, the Council had the following investment:

Investment Type	Net Asset Value	Weighted Average Maturity (Days)	Standard & Poor's Current Rating
TexPool	$ 1,386,944	44	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, 2024.

A summary of the Council's lease receivable as of September 30, 2025, is as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Lease Receivable	Interest Current Year	Lease Receivable 9/30/25
Right to Use:					
Building	3.5%	2024	$ 2,693,938	$ 60,090	$ 1,485,820

Capital Assets

Capital asset activity for the year ended September 30, 2025, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets, not being depreciated:				
Land	$ 690,000	$ -	$ -	$ 690,000
Total capital assets not being depreciated	690,000	-	-	690,000
Capital assets, being depreciated:				
Buildings and improvements	2,867,509	-	-	2,867,509
Machinery and equipment	3,567,828	695,374	721,506	3,541,696
Right to use:				
Facility	6,012,277	-	-	6,012,277
Office space and parking	35,785	-	-	35,785
Equipment	33,249	49,187	33,249	49,187
Subscription	136,436	-	-	136,436
Total capital assets being depreciated	12,653,084	744,561	754,755	12,642,890
Less accumulated depreciation:				
Buildings and improvements	1,521,252	70,250	-	1,591,502
Machinery and equipment	2,692,372	362,232	721,506	2,333,098
Right to use:				
Facility	4,182,453	261,403	-	4,443,856
Office space and parking	35,784	-	-	35,784
Equipment	29,153	7,923	32,939	4,137
Subscription	27,287	27,286	-	54,573
Total accumulated depreciation	8,488,301	729,094	754,445	8,462,950
Total capital assets, being depreciated, net	4,164,783	15,467	310	4,179,940
Governmental activities capital assets, net	$ 4,854,783	$ 15,467	$ 310	$ 4,869,940

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	$ 83,662
Aging	107,248
Transportation	405,553
Emergency communications	35,672
Homeland security	26,933
Health and human services	37,706
Environmental quality	8,080
Criminal justice	8,080
Economic development	16,160
Total depreciation expense - governmental activities	$ 729,094

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 Liabilities

A summary of long-term liability activity for the year ended September 30, 2025, is as follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance	Amount Due in One Year
Governmental activities:					
Notes payable	$ 38,644	$ -	$ 38,644	$ -	$ -
Leases	1,886,860	49,187	270,254	1,665,793	271,808
SBITA payable	111,022	-	26,318	84,704	27,254
Compensated absences	226,343	-	6,765	219,578	175,663
Total	$ 2,262,869	$ 49,187	$ 341,981	$ 1,970,075	$ 474,725

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 $22,961.

A summary of the governmental activities long-term lease payable as of September 30, 2025, is as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Lease Liability	Interest Current Year	Amounts Outstanding 9/30/25
Right to Use:					
Facility	3.50%	2008	$ 6,012,277	$ 5,490	$ 1,620,430
Postage meter	3.50%	2020	19,541	64	-
Copier	3.50%	2020	13,708	6	-
Postage meter	3.50%	2025	27,415	159	26,620
Copier	3.50%	2025	21,771	536	18,743
Totals				$ 6,255	$ 1,665,793

Annual lease payments to maturity are as follows:

Year Ending September 30,	Lease Payable Principal	Lease Payable Interest	Total Requirements
2026	$ 271,808	$ 6,170	$ 277,978
2027	272,895	5,082	277,977
2028	282,022	3,981	286,003
2029	283,161	2,842	286,003
2030	280,708	1,731	282,439
2031	275,199	803	276,002
Totals	$ 1,665,793	$ 20,609	$ 1,686,402

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, 2025, the value of the subscription liability is $84,704. The Council is required to make monthly fixed payments of $2,482. The subscription has an interest rate of 3.5%. The value of the right to use asset, net of accumulated depreciation, as of September 30, 2025, is $81,863.

Debt service requirements on SBITA payable as of September 30, 2025, are as follows:

Year Ending	**Governmental Activities - SBITA**		
September 30	Principal	Interest	Total
2026	$ 27,254	$ 2,530	$ 29,784
2027	28,223	1,561	29,784
2028	29,227	557	29,784
Total	$ 84,704	$ 4,648	$ 89,352

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, 2025, 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% 2.5 to 1
Years required for vesting	10
Service retirement eligibility	30 years at any age, 10 years at age 80 and above

Employees covered by benefit terms

At the December 31, 2024, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	7
Active employees	31
	42

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 participate 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 rates for the Council were 8.16% and 8.11% in calendar years 2024 and 2025, respectively. The Council's contributions to TCDRS for the year ended September 30, 2025, were $145,059, and were equal to the required contributions.

Net Pension Liability (Asset)

The Council's Net Pension Liability (Asset) was measured as of December 31, 2024, 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, 2024, 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, 2024, 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 7.6%, 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	13.00%	5.35%
Global Equities	MSCI World (net) Index	4.00%	5.15%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	6.00%	4.75%
Int'l Equities - Emerging Markets	MSCI EM Standard (net) Index	0.00%	4.75%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond index	3.00%	2.55%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.70%
Direct Lending	Morningstar LSTA US Leveraged Loan TR USD Index	16.00%	6.85%
Distressed Debt	Cambridge Associates Distressed Securities Index [3]	4.00%	6.80%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	3.95%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	4.95%
Commodities	Bloomberg Commodities Index	2.00%	1.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index [4]	6.00%	5.75%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index [5]	25.00%	8.15%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	3.60%
Cash Equivalents	90-Day U.S. Treasury	2.00%	1.10%

(1) Target asset allocation adopted at the March 2025 TCDRS Board meeting.
(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.35% per Cliffwater's 2025 capital market assumptions.
(3) Includes vintage years 2005-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, 2023	$ 1,987,981	$ 1,904,697	$ 83,284
Changes for the year:			
Service cost	189,517	-	189,517
Interest on total pension liability [1]	164,720	-	164,720
Effect of economic/demographic gains or losses	32,567	-	32,567
Refund of contributions	-	-	-
Benefit payments	(20,661)	(20,661)	-
Administrative expenses	-	(1,260)	1,260
Member contributions	-	72,526	(72,526)
Net investment income	-	198,385	(198,385)
Employer contributions	-	147,957	(147,957)
Other [2]	-	11,562	(11,562)
Balance as of December 31, 2024	$ 2,354,124	$ 2,313,206	$ 40,918

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

[2] 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	$ 2,655,364	$ 2,354,124	$ 2,099,183
Fiduciary net position	2,313,206	2,313,206	2,313,206
Net pension liability (asset)	$ 342,158	$ 40,918	$ (214,023)

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, 2025, the Council recognized pension expense of $140,252.

As of September 30, 2025, 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	$ 348	$ 62,863
Changes in actuarial assumptions	1,180	11,801
Net difference between projected and actual investment earnings	10,365	-
Contributions made subsequent to the measurement date	-	107,878
Total	$ 11,893	$ 182,542

$107,878 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, 2026. 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,	
2026	$ 20,927
2027	41,081
2028	(3,184)
2029	3,947

5. ACCOUNTING CHANGES

Accounting changes and error corrections for the year are reported as follows:

Change in Accounting Principle. During fiscal year 2025, the Council adopted GASB Statement No. 101, *Compensated Absences*, which caused changes to amounts reported in the prior year. Items reported for changes in accounting principle include the following:

- The adoption of the new GASB standard during the reporting period resulted in the recognition of additional compensated absences liabilities. The beginning compensated absences liability for fiscal year 2025 was $226,343, per the Council's analysis of historical leave earned and used by employees. Beginning net position was reduced by $83,884.

Adjustments to and Restatements of Beginning Balances. During Fiscal Year 2025, the changes in accounting principle described above, resulted in adjustments to and restatements of beginning net position and fund balance, as follows:

	9/30/2024 As Previously Reported	Change in Accounting Principle	9/30/2024 As Restated
Government-wide			
Governmental activities	$ 3,463,762	$ (83,884)	$ 3,379,878
Total primary government	$ 3,463,762	$ (83,884)	$ 3,379,878

6. FORTHCOMING ACCOUNTING STANDARDS

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

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 105, *Subsequent Events* – The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement will become effective for fiscal years beginning after June 15, 2026, 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, 2025

Plan Year Ended December 31	**2015**	**2016**	**2017**	**2018**
Total Pension Liability				
Service Cost	$ 40,740	$ 180,990	$ 164,519	$ 160,433
Interest total pension liability	1,614	10,621	31,004	46,381
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)	4,413
Benefit payments/refunds of contributions	-	-	(309)	(1,457)
Net change in total pension liability	42,395	176,000	194,496	209,770
Total pension liability - beginning	-	42,395	218,395	412,891
Total pension liability - ending (a)	$ 42,395	$ 218,395	$ 412,891	$ 622,661
Plan Fiduciary Net Position				
Employer contributions	$ 26,103	$ 99,023	$ 100,773	$ 101,023
Member contributions	15,221	57,740	58,082	57,892
Investment income net of investment expenses	(351)	3,125	32,392	(5,642)
Benefit payments refunds of contributions	-	-	(309)	(1,457)
Administrative expenses	(15)	(34)	(264)	(444)
Other	(2)	3,633	2,121	4,731
Net change in plan fiduciary net position	40,956	163,487	192,795	156,103
Plan fiduciary net position - beginning	-	40,956	204,443	397,238
Plan fiduciary net position - ending (b)	40,956	204,443	397,238	553,341
Net pension liability (asset) - ending (a) - (b)	$ 1,439	$ 13,952	$ 15,653	$ 69,320
Fiduciary net position as a percentage of total pension liability (asset)	97%	94%	96%	89%
Pensionable covered payroll	$ 1,522,022	$1,443,496	$ 1,452,053	$ 1,447,300
Net pension liability as a percentage of covered payroll	0.1%	0.97%	1.08%	4.79%

2019	2020	2021	2022	2023	2024
$ 158,700	$ 159,761	$ 175,693	$ 179,854	$ 165,397	$ 189,517
63,178	81,827	101,088	121,060	140,751	164,720
-	-	-	-	-	-
-	70,807	(3,540)	18,527	-	32,567
13,917	7,072	(1,045)	-	39,551	-
(2,826)	(10,561)	(20,624)	(6,242)	(87,025)	(20,661)
232,969	308,906	251,572	313,199	258,674	366,143
622,661	855,630	1,164,536	1,416,108	1,729,307	1,987,981
$ 855,630	$ 1,164,536	$ 1,416,108	$ 1,729,307	$ 1,987,981	$ 2,354,124
$ 106,113	$ 113,075	$ 117,143	$ 136,505	$ 134,290	$ 147,957
60,119	63,257	65,533	66,102	67,993	72,526
90,704	84,280	252,949	(103,850)	177,679	198,385
(2,825)	(10,561)	(20,624)	(6,242)	(87,025)	(20,661)
(619)	(782)	(804)	(941)	(995)	(1,260)
5,708	4,986	4,885	28,888	6,415	11,562
259,200	254,255	419,082	120,462	298,357	408,509
553,341	812,541	1,066,796	1,485,878	1,606,340	1,904,697
812,541	1,066,796	1,485,878	1,606,340	1,904,697	2,313,206
$ 43,089	$ 97,740	$ (69,770)	$ 122,967	$ 83,284	$ 40,918
95%	92%	105%	93%	96%	98%
$ 1,502,986	$ 1,581,427	$ 1,638,336	$ 1,652,559	$ 1,699,824	$ 1,813,142
2.87%	6.18%	-4.26%	7.44%	4.90%	2.26%

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2025	$ 145,059	$ 145,059	$ -	$ 1,785,830	8.12%
2024	146,720	146,720	-	1,812,534	8.09%
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%

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 <u>determine contributions rates:</u>	
Actuarial Cost Method	Entry Age (level percentage of pay)
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	16.7 years (based on contribution rate calculated in 12/31/2024 valuation)
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.

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SUPPLEMENTARY INFORMATION

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES BY OBJECT

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	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	$ 443,906	$ 32,207	$ 4,708	$ 170,521	$ 33,122
Benefits	225,148	16,356	2,388	86,490	16,799
Delegate agencies	1,794,725	15,833	-	-	-
Contractual services	80,082	10,747	-	596,784	226,338
Office space	15,516	838	140	3,923	1,382
Supplies and materials	11,297	1,207	-	175,680	1,690
Travel	23,451	5,291	-	519	1,807
Repairs and maintenance	-	-	-	102,175	-
Utilities/telephone	3,251	619	29	22,572	285
Other	35,094	928	-	47,863	5,022
Debt service:					
Principal	66,248	3,739	595	43,001	5,855
Interest	1,428	93	13	3,820	123
Capital outlay	-	-	-	669,730	-
Indirect cost allocation	418,695	30,379	4,441	160,837	31,241
Total expenditures	$ 3,118,841	$ 118,237	$ 12,314	$ 2,083,915	$ 323,664

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

Texas Commission on State Emergency Communications	U. S. Department of Commerce	U. S. Department of Homeland Security	Texas Health and Human Services Commission	Local	Total
$ 98,842	$ 63,608	$ 111,664	$ 156,184	$ -	$ 1,114,762
50,133	32,262	56,637	79,216	-	565,429
650,648	-	-	-	-	2,461,206
5,571	10,769	79,142	1,880	-	1,011,313
5,064	2,441	4,926	3,844	-	38,074
20,549	2,970	541,030	12,034	-	766,457
3,977	14,920	6,184	1,365	-	57,514
-	-	-	-	-	102,175
1,624	631	1,182	-	-	30,193
4,410	163	2,610	17,622	268,579	382,291
21,622	10,396	20,939	16,520	145,961	334,876
467	222	444	364	3,080	10,054
-	-	-	-	74,831	744,561
93,229	59,995	105,323	147,313	897	1,052,350
$ 956,136	$ 198,377	$ 930,081	$ 436,342	$ 493,348	$ 8,671,255

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budget	Actual	Variance
INDIRECT COSTS			
Salaries	$ 406,048	$ 433,127	$ (27,079)
Benefits	212,452	219,732	(7,280)
Total indirect salaries and benefits	618,500	652,859	(34,359)
Travel	10,000	8,512	1,488
Supplies	5,000	5,268	(268)
Legal fees	500	330	170
Audit	35,500	35,500	-
Space costs	112,800	121,085	(8,285)
Communications	13,500	13,405	95
Copies/printing	6,000	7,705	(1,705)
Computer costs	60,500	62,354	(1,854)
Postage	6,500	6,169	331
Insurance/bonding	6,000	6,707	(707)
Dues/subscriptions/publications	17,000	16,960	40
Other costs/miscellaneous	4,000	7,355	(3,355)
Prior period carryforward	362,200	-	362,200
Total other indirect costs	639,500	291,350	348,150
Total indirect costs	1,258,000	944,209	313,791
Less: HOTEDD admin/fiscal contracts	(61,373)	(61,373)	-
Net indirect costs	$ 1,196,627	882,836	$ 313,791
Indirect costs recovered		(1,052,350)	
Current year over (under) recovery to be recaptured in future years		169,514	
Over (under) recovery carried forward from previous years		(109,049)	
Cumulative over (under) recovery to be recovered in future years		$ 60,465	
CALCULATION OF INDIRECT COST RATE:			
Adjusted gross salaries	$ 1,566,898	$ 1,548,840	
Net fringe benefits recovered	819,834	785,643	
Less: indirect salaries and benefits	(618,500)	(652,859)	
Total program personnel costs	$ 1,768,232	$ 1,681,624	
Indirect rate	67.67%	52.50%	

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FRINGE BENEFITS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Actual	Budget
Payroll taxes	$ 133,269	$ 136,269
Group insurance	259,610	229,136
Retirement contribution	145,055	142,785
Release time	249,307	214,394
Prior period carryforward	-	97,250
TOTAL FRINGE BENEFITS	$ 787,241	$ 819,834
TOTAL WAGES	$ 1,548,840	$ 1,566,898
EMPLOYEE BENEFIT RATE	50.83%	52.32%
FRINGE BENEFITS RECOVERED	$ 785,643	
CURRENT YEAR OVER (UNDER) RECOVERY TO BE RECAPTURED IN FUTURE YEARS	(1,598)	
OVER (UNDER) RECOVERY CARRIED FORWARD FROM PREVIOUS YEARS	(74,702)	
CUMULATIVE OVER (UNDER) RECOVERY TO BE RECOVERED IN FUTURE YEARS	$ (76,300)	

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SINGLE AUDIT SECTION

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

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, 2025, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated February 18, 2026.

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*.

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
February 18, 2026

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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, 2025. 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, 2025.

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.

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 or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected and corrected on a timely basis. A *significant deficiency* in *internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the *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
February 18, 2026

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

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. S. Department of Agriculture				
Passed through the Texas Department of Agriculture:				
2024-2025 Supplemental Nutrition Assistance (SNAP) Food Stamps (FS) OPS FD	10.561	HHS000979200014	$ 67,519	$ -
2024-2025 Supplemental Nutrition Assistance (SNAP) Food Stamps (FS) Rider 28 HB1	10.561	HHS000979200014	5,258	-
2025-2026 Supplemental Nutrition Assistance (SNAP) Food Stamps (FS) OPS FD	10.561	HHS000979200014	6,952	-
2025-2026 Supplemental Nutrition Assistance (SNAP) Food Stamps (FS) Rider 28 HB1	10.561	HHS000979200014	510	-
Subtotal SNAP Cluster			80,239	-
Total Texas Department of Agriculture			80,239	-
Total U. S. Department of Agriculture			80,239	-
U. S. Department of Commerce				
Passed through the Heart of Texas Economic Development District:				
Economic Development Support for Planning Organizations	11.302	ED24AUS0G0277	70,000	-
Total Heart of Texas Economic Development District			70,000	-
Total U. S. Department of Commerce			70,000	-
U. S. Department of Housing and Urban Development				
Passed through the Texas Department of Agriculture:				
TxCDBG - CEDAF Technical Assistance (CDBG - Entitlement Grants Cluster)	14.218	CEDAF24-15	11,041	-
TxCDBG - CEDAF Technical Assistance (CDBG - Entitlement Grants Cluster)	14.218	CEDAF25-15	1,198	-
Total Entitlement Grants Cluster			12,239	-
Total Texas Department of Agriculture			12,239	-
Total U. S. Department of Housing and Urban Development			12,239	-
U. S. Department of Justice				
Passed through Texas Governor's Office, Criminal Justice Division:				
Crisis Intervention Training Program	16.738	5075501	16,655	-
Total Texas Governor's Office, Criminal Justice Division			16,655	-
Total U. S. Department of Justice			16,655	-
U. S. Department of Transportation				
Passed through the Texas Department of Transportation:				
Short Range Transit Planning Section 5304	20.505	51008020925	16,676	-
Short Range Transit Planning Section 5304	20.505	51008020926	2,721	-
Subtotal 20.505			19,397	-
Rural Public Transportation Section 5311	20.509	51018010924	260,843	-
Rural Public Transportation Section 5311	20.509	51018010925	821,565	-
Rural Public Transportation Section 5311	20.509	51018010926	11,558	-
Rural Public Transportation Section 5311	20.509	51003F20923	409,520	-
Subtotal 20.509			1,503,486	-
Total Texas Department of Transportation			1,522,883	-
Total U. S. Department of Transportation			1,522,883	-

The accompanying notes are an integral part of this schedule.

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. S. Department of the Treasury				
Passed through the Texas Commission on State Emergency Communications:				
COVID-19 ARP 911 Emergency Communications	21.027	CSEC 2025	$ 14,384	$ -
COVID-19 ARP 911 Emergency Communications	21.027	CSEC 2025	99,611	-
Total Texas Commission of Emergency Communications			113,995	-
Total U. S. Department of the Treasury			113,995	-
U. S. Department of Health and Human Services				
Passed through Texas Department of Aging and Disability Services:				
Title VII EAP	93.041	539-16-0019-00001	3,375	-
Subtotal 93.041			3,375	-
2025 Title VII - OM	93.042	539-16-0019-00001	42,990	-
Subtotal 93.042			42,990	-
2024 Title III - D	93.043	539-16-0019-00001	22,258	-
2025 PY Title III - D	93.043	539-16-0019-00001	8,831	-
Subtotal 93.043			31,089	-
2024 Title III - B	93.044	539-16-0019-00001	(1,175)	-
2025 PY Title III - B	93.044	539-16-0019-00001	300,575	-
COVID-19 2025 ARP Title III - B	93.044	539-16-0019-00001	-	-
2025 Title III - B	93.044	539-16-0019-00001	398,123	-
2024 Title III - C1	93.045	539-16-0019-00001	2,885	2,885
2025 PY Title III - C1	93.045	539-16-0019-00001	188,547	188,547
2025 Title III - C1	93.045	539-16-0019-00001	159,894	159,894
2024 Title III - C2	93.045	539-16-0019-00001	4,042	4,042
2025 Title III - C2	93.045	539-16-0019-00001	521,191	521,191
2025 PY Title III - C2	93.045	539-16-0019-00001	34,147	34,147
2025 Nutrition Services Incentive Program	93.053	539-16-0019-00001	131,311	131,311
Subtotal Aging Cluster			1,739,540	1,042,017
2025 PY Title III - E	93.052	539-16-0019-00001	113,276	-
2025 Title III - E	93.052	539-16-0019-00001	16,839	-
Subtotal 93.052			130,115	-
2025 ACL Medicare Improvements for Patients & Providers Act	93.071	539-16-0019-00001	31,695	-
2025 ADRC Medicare Improvements for Patients & Providers Act	93.071	HHS001341600015	17,937	-
Subtotal 93.071			49,632	-

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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. S. Department of Health and Human Services (cont.)				
Passed through Texas Department of Aging and Disability Services (cont.):				
2025 ADRC Texas Lifespan Program	93.072	HHS001341600015	$ 11,001	$ -
Subtotal 93.072			11,001	-
2025 Health Information, Counseling, and Advocacy Program (HICAP)	93.324	539-16-0019-00001	67,651	-
Subtotal 93.324			67,651	-
COVID-19 2024 ARP Elder Justice Act Ombudsman - Staff	93.747	539-16-0019-00001	116	-
COVID-19 2025 ARP Elder Justice Act Ombudsman - Staff	93.747	539-16-0019-00001	10,959	-
Subtotal 93.747			11,075	-
2025 ADRC Housing Navigator	93.791	HHS001341600015	40,857	-
2025 ADRC Local Contact Agency (OC)	93.791	HHS001341600015	13,050	-
2026 ADRC Housing Navigator	93.791	HHS001341600015	3,170	-
2026 ADRC Local Contact Agency (OC)	93.791	HHS001341600015	2,365	-
Subtotal 93.791			59,442	-
Total Texas Department of Aging and Disability Services			2,145,910	1,042,017
Passed through Texas Health and Human Services Commission:				
2024-2025 Temporary Assistance for Needy Families (TANF) OPS FD	93.558	HHS000979200014	792	-
2024-2025 Temporary Assistance for Needy Families (TANF) Rider 28 HB1	93.558	HHS000979200014	62	-
2025-2026 Temporary Assistance for Needy Families (TANF) OPS FD	93.558	HHS000979200014	82	-
2025-2026 Temporary Assistance for Needy Families (TANF) FD Rider 28 HB1	93.558	HHS000979200014	6	-
Subtotal 93.558			942	-
2024-2025 211 Area Information - Childcare	93.575	HHS000979200014	5,533	-
2025-2026 211 Area Information - Childcare	93.575	HHS000979200014	751	-
Subtotal CCDF Cluster			6,284	-
2024-2025 Children's Health Insurance Program (CHIP) OPS FD	93.767	HHS000979200014	3,404	-
2024-2025 Children's Health Insurance Program (CHIP) Rider 28	93.767	HHS000979200014	265	-
2025-2026 Children's Health Insurance Program (CHIP) OPS FD	93.767	HHS000979200014	350	-
2025-2026 Children's Health Insurance Program (CHIP) Rider 28	93.767	HHS000979200014	25	-
Subtotal 93.767			4,044	-
2024-2025 Medicaid Administration (MA) Rider 28 HB 1 OPS FD	93.778	HHS000979200014	109,453	-
2024-2025 Medicaid Administration (MA) Rider 28 HB 1	93.778	HHS000979200014	8,523	-
2025-2026 Medicaid Administration (MA) Rider 28 HB 1 OPS FD	93.778	HHS000979200014	11,269	-
2025-2026 Medicaid Administration (MA) Rider 28 HB 1	93.778	HHS000979200014	825	-
Subtotal Medicaid Cluster			130,070	-
Total Texas Health and Human Services Commission			141,340	-
Total U. S. Department of Health and Human Services			2,287,250	1,042,017

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)
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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. S. Department of Homeland Security				
Passed through Texas Governor's Office, Homeland Security Grants Division:				
Homeland Security Grant Program - Regional Planning	97.067	2954109	$ 22,027	$ -
Homeland Security Grant Program - Regional Citizen Corps Program	97.067	2954009	13,794	-
Homeland Security Grant Program - ENS Information Sharing	97.067	2953609	9,669	-
Homeland Security Grant Program - Regional Planning	97.067	2954110	127,041	-
Homeland Security Grant Program - Regional Citizen Corps Program	97.067	2954010	15,048	-
Homeland Security Grant Program - ENS Information Sharing	97.067	2953610	50,270	-
Bomb Making Materials Awareness Program	97.067	4468802	18,806	-
Bomb Making Materials Awareness Program	97.067	4468803	45,509	-
Total Texas Governor's Office, Homeland Security Grants Division			302,164	-
Total U. S. Department of Homeland Security			302,164	-
Total Federal Awards			$ 4,405,425	$ 1,042,017

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)
FOR THE YEAR ENDED SEPTEMBER 30, 2025

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures	Passed Through to Subrecipients
STATE AWARDS			
Texas Commission on Environmental Quality			
Solid Waste Planning	582-24-50088	$ 136,214	$ -
Solid Waste Planning	582-26-00080	7,144	-
Air Quality	582-20-10505	176,270	-
Total Texas Commission on Environmental Quality		319,628	-
Texas Governor's Office, Criminal Justice Division			
2023-2024 Regional Law Enforcement Training	1784713	30,898	-
2024-2025 Regional Law Enforcement Training	1784714	7,801	-
2024-2025 Purchase of Juvenile Justice Alternatives	1424126	24,524	-
Total Texas Governor's Office, Criminal Justice Division		63,223	-
Texas Governor's Office, Homeland Security Division			
Regional Communication Infrastructure	4559401	171,783	-
Regional Communication Infrastructure	4559402	441,143	-
Total Texas Governor's Office, Homeland Security Division		612,926	-
Total Texas Governor's Office		676,149	-
Texas Department of Aging and Disability Services			
2025 State General Revenue (SGR)	539-16-0019-00001	48,003	48,003
2025 State General Revenue (SGR) - Title III-E Match	539-16-0019-00001	44,055	-
2025 Assisted Living Facility Long-Term Care Ombudsman	539-16-0019-00001	27,648	-
2025 Housing Bond	539-16-0019-00001	14,475	-
2024 ADRC State General Revenue (SGR)	HHS000270200024	(2,010)	-
2025 ADRC State General Revenue (SGR)	HHS000270200024	82,005	-
2025 ADRC Promoting Independence	HHS000270200024	5,957	-
2026 ADRC State General Revenue (SGR)	HHS000270200025	17,387	-
2026 ADRC Promoting Independence	HHS000270200025	1,769	-
Total Texas Department of Aging and Disability Services		239,289	48,003
Texas Commission on State Emergency Communications			
2023 - 911 Emergency Communications	N/A	1,324	-
2024 - 911 Emergency Communications	N/A	(75,158)	-
2025 - 911 Emergency Communications	N/A	876,287	-
2026 - 911 Emergency Communications	N/A	35,035	-
Total Texas Commission on State Emergency Communications		837,488	-

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)
FOR THE YEAR ENDED SEPTEMBER 30, 2025

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures	Passed Through to Subrecipients
STATE AWARDS (Continued)			
Texas Department of Transportation			
Rural Public Transportation - Section 5311	51218010925	$ 390,800	$ -
Rural Public Transportation - Section 5311	51218010926	25,171	-
Rural Transit Assistance Program - Scholarships	N/A	169	-
Total Texas Department of Transportation		416,140	-
Texas Health and Human Services Commission			
2024-2025 211 Area Information - Operational	HHS000979200014	178,685	-
2025-2026 211 Area Information - Rider 28 HB1	HHS000979200014	13,914	-
2024-2025 211 Area Information - Operational	HHS000979200014	20,789	-
2025-2026 211 Area Information - Rider 28 HB1	HHS000979200014	1,375	-
Total Texas Health and Human Services Commission		214,763	-
Total State Awards		$ 2,703,457	$ 48,003
Total Federal and State Awards		$ 7,108,882	$ 1,090,020

The accompanying notes are an integral part of this schedule.

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 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, 2025, 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 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 reallocated certain grant expenditures. As a result of this, certain 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, 2025

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
Identification of major programs:	
Assistance Listing Number:	Name of Program or Cluster:
#20.509	Rural Public Transportation - Section 5311
State	911 Emergency Communications
State	Rural Public Transportation - Section 5311
Dollar threshold used to distinguish between type A and type B federal programs	$1,000,000
Dollar threshold used to distinguish between type A and type B state programs	$1,000,000
Auditee qualified as low-risk auditee?	Yes

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

None

Findings and Questioned Costs for Federal and State Awards

None

Judge Richard Duncan
President

Councilmember Jimmy Rogers
Vice-President

Heart of Texas Council of Governments

Judge Cindy Valandingham
Secretary/Treasurer

Russell Devorsky
Executive Director

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2025

None

A Voluntary Association of Local Governments
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