

**HEART OF TEXAS COUNCIL
OF GOVERNMENTS**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2019

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Heart of Texas Council of Governments (the "Council"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

OFFICE LOCATIONS

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Heart of Texas Council of Governments, as of September 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and pension information on pages 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2020, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

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

Waco, Texas
March 4, 2020

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, 2019. 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, 2019, by \$1,521,202 (net position). Of this amount, \$198,437 represents the balance of unrestricted net position for the Council.
- The Council's total net position increased by \$6,747 during the fiscal year.
- As of the close of the current fiscal year, the Council's governmental fund reported an ending fund balance of \$372,532, a decrease of \$76,406 in comparison with the prior year.
- As of September 30, 2019, unassigned fund balance in the General Fund was \$280,237 .

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Activities presents information showing how the Council's net position changed during the fiscal year. All changes in net position are reported when an event that gives rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused compensated absences). The government-wide financial statements can be found on pages 10 through 11 of this report.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Council, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

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

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

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

The basic governmental fund financial statements can be found on pages 12 through 14 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the governmental fund financial statements.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the Council's case, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,521,202 as of September 30, 2019.

HEART OF TEXAS COUNCIL OF GOVERNMENTS' NET POSITION

	Governmental Activities	
	2019	2018
Current assets	\$ 1,711,028	\$ 1,709,019
Capital assets	<u>2,473,328</u>	<u>2,572,444</u>
Total assets	<u>4,184,356</u>	<u>4,281,463</u>
Deferred outflows of resources	<u>116,136</u>	<u>77,399</u>
Current liabilities	1,341,344	1,263,406
Other liabilities	<u>1,425,985</u>	<u>1,563,890</u>
Total liabilities	<u>2,767,329</u>	<u>2,827,296</u>
Deferred inflows of resources	11,961	17,111
Net position:		
Net investment in capital assets	1,249,038	1,145,720
Restricted for:		
Federal and state programs	73,727	111,933
Unrestricted	<u>198,437</u>	<u>256,802</u>
Total net position	\$ <u>1,521,202</u>	\$ <u>1,514,455</u>

A large portion of the Council's net position reflects its investment in capital assets. The Council uses these assets to provide services; consequently, these values are not available for spending. Of the remaining balance, \$73,727 is restricted and can be used only for certain purposes as required by state granting agencies.

Analysis of the Council's Operations – The following table provides a summary of the Council's operations for the year ended September 30, 2019.

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

	Governmental Activities	
	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 404,685	\$ 390,000
Operating grants and contributions	6,513,602	5,824,641
General revenues:		
Membership dues	57,791	57,791
Miscellaneous	91,767	93,746
Total revenues	<u>7,067,845</u>	<u>6,366,178</u>
Expenses after allocation of indirect costs:		
General government	385,389	323,297
Aging	2,861,088	2,931,534
Transportation	1,286,887	1,133,653
Emergency communications	1,301,450	920,353
Homeland security	287,964	308,315
Health and human services	401,873	399,114
Environmental quality	142,962	111,711
Criminal justice	151,412	144,112
Community development	14,603	9,392
Economic development	161,072	146,351
Interest on long-term debt	<u>66,398</u>	<u>76,969</u>
Total expenses after allocation of indirect costs	<u>7,061,098</u>	<u>6,504,801</u>
Change in net position	6,747	(138,623)
Net position, beginning	<u>1,514,455</u>	<u>1,653,078</u>
Net position, ending	<u>\$ 1,521,202</u>	<u>\$ 1,514,455</u>

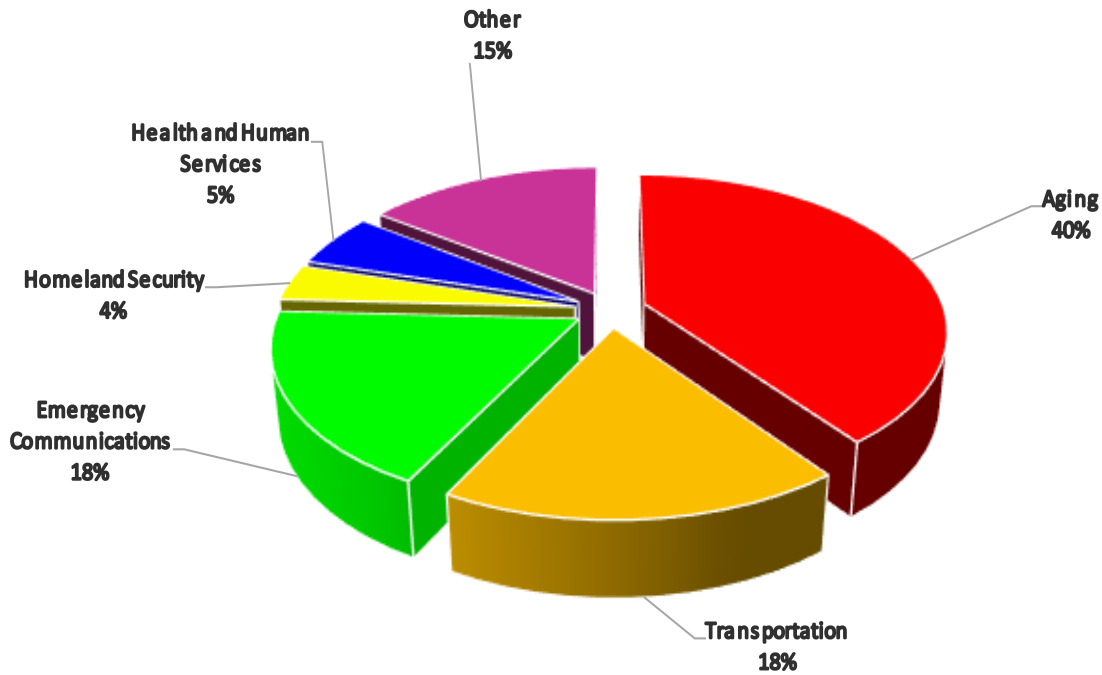
The Council experienced an increase in revenues of \$701,667 or 11% from 2018. Expenses increased by \$556,297 or 9% from the prior year. The Council's operations are driven primarily by federal and state grant funding, which can vary significantly from year to year. The current year saw significant increases in funding from the Commission on State Emergency Communications as well as from the Texas Department of Transportation.

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 \$372,532, a decrease of \$76,406 from the prior year.

Governmental Fund Expenditures by Function



CAPITAL ASSETS AND LONG-TERM DEBT

The Council's investment in capital assets for its governmental activities as of September 30, 2019, amounts to \$2,473,328 (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	
	2019	2018
Capital assets:		
Land	\$ 690,000	\$ 690,000
Buildings and improvements	2,810,000	2,810,000
Machinery and equipment	2,288,741	2,445,216
Less accumulated depreciation	(3,315,413)	(3,372,772)
Total capital assets, net of accumulated depreciation	\$ <u>2,473,328</u>	\$ <u>2,572,444</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S ANNUAL FINANCIAL PLAN

The Council is dependent on federal, state and local funding, which can vary widely from year to year. The federal and state economic condition and budget deficits can impact the reauthorization of funds available to local governments. It should be noted that the Council does not know of any significant factors that would affect the financial plan for fiscal year 2020.

REQUESTS FOR INFORMATION

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

**BASIC
FINANCIAL STATEMENTS**

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 951,424
Receivables:	
Grantors	697,551
Other	43,485
Prepaid expenses	18,568
Capital assets:	
Land	690,000
Buildings and improvements	2,810,000
Machinery and equipment	2,288,741
Less: accumulated depreciation	(3,315,413)
Total capital assets	<u>2,473,328</u>
Total assets	<u>4,184,356</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>116,136</u>
Total deferred outflows of resources	<u>116,136</u>
LIABILITIES	
Accounts payable	257,146
Unearned revenue	585,578
Due to HOTEDD	466,977
Accrued liabilities	28,795
Accrued interest payable	2,848
Noncurrent liabilities:	
Due within one year:	
Note payable	212,830
Compensated absences	119,138
Due in more than one year:	
Note payable	1,011,460
Compensated absences	13,237
Net pension liability	<u>69,320</u>
Total liabilities	<u>2,767,329</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>11,961</u>
Total deferred inflows of resources	<u>11,961</u>
NET POSITION	
Net investment in capital assets	1,249,038
Restricted for federal and state programs	73,727
Unrestricted	<u>198,437</u>
Total net position	<u>\$ 1,521,202</u>

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Functions/Programs	Expenses	Indirect Cost Allocation	Expenses After Allocation of Indirect Costs	Program Revenues		Net (Expense) Revenue and Changes in Net Position
				Charges for Services	Operating Grants and Contributions	
Governmental activities:						
General government	\$ 385,389	\$ -	\$ 385,389	\$ 404,685	\$ -	\$ 19,296
Aging	2,558,957	302,131	2,861,088	-	2,855,396	(5,692)
Transportation	1,189,725	97,162	1,286,887	-	1,217,084	(69,803)
Emergency communications	1,232,363	69,087	1,301,450	-	1,299,062	(2,388)
Homeland security	232,092	55,872	287,964	-	272,808	(15,156)
Health and human services	267,287	134,586	401,873	-	398,052	(3,821)
Environmental quality	120,236	22,726	142,962	-	142,257	(705)
Criminal justice	126,010	25,402	151,412	-	156,847	5,435
Community development	10,791	3,812	14,603	-	11,918	(2,685)
Economic development	114,709	46,363	161,072	-	160,178	(894)
Indirect costs	757,141	(757,141)	-	-	-	-
Interest on long-term debt	66,398	-	66,398	-	-	(66,398)
Total governmental activities	\$ 7,061,098	\$ -	\$ 7,061,098	\$ 404,685	\$ 6,513,602	(142,811)
General revenues:						
Membership dues						57,791
Miscellaneous income						91,767
Total general revenues						149,558
Change in net position						6,747
Net position, beginning						1,514,455
Net position, ending						\$ 1,521,202

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

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2019

	<u>General</u>
ASSETS	
Cash and investments	\$ 951,424
Due from grantor agencies	697,551
Other receivables	43,485
Prepaid items	<u>18,568</u>
Total assets	\$ <u>1,711,028</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 257,146
Unearned revenue	585,578
Due to HOTEDD	466,977
Accrued liabilities	<u>28,795</u>
Total liabilities	<u>1,338,496</u>
Fund balance:	
Nonspendable - prepaid items	18,568
Restricted for:	
Health and human services	29,748
Transportation	43,979
Unassigned	<u>280,237</u>
Total fund balance	<u>372,532</u>
Total liabilities and fund balance	\$ <u>1,711,028</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	\$ 2,473,328
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,428,833)
Deferred outflows/inflows of resources related to pensions are not reported in the funds.	<u>104,175</u>
Net position of governmental activities	\$ <u>1,521,202</u>

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General</u>
REVENUES	
Federal	\$ 2,708,519
State	2,786,046
Program income/in-kind match	812,998
Rent	390,000
Local funds	257,703
Membership dues	57,791
Investment income	<u>7,802</u>
Total revenues	<u>7,020,859</u>
EXPENDITURES	
Current:	
General government	313,580
Aging	2,849,431
Transportation	1,231,574
Emergency communications	1,299,490
Homeland security	268,566
Health and human services	398,053
Environmental quality	142,318
Criminal justice	150,692
Community development	14,496
Economic development	159,756
Debt service:	
Principal	202,434
Interest	<u>66,875</u>
Total expenditures	<u>7,097,265</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(76,406)
FUND BALANCE, BEGINNING	<u>448,938</u>
FUND BALANCE, ENDING	<u>\$ 372,532</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Net change in fund balances - total governmental funds:	\$(76,406)
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.	(146,102)
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.	202,434
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.	(20,165)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net position.	<u>46,986</u>
Change in net position of governmental activities	\$ <u>6,747</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of the Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Council.

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

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

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

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

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

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

The Council reports the following major governmental fund:

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

Due from Grantor Agencies

Due from grantor agencies represents amounts due from federal and state agencies for the various programs administered by the Council. The receivable includes amounts due on programs closed-out and those in progress as of September 30, 2019.

Prepaid Items

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

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Council as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

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

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

Unearned Revenue

Unearned revenue represents amounts received from grantors in excess of qualifying expenditures for programs in progress as of September 30, 2019.

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 position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Council has the following items related to its pension plan that qualify for reporting in this category:

- Differences between expected and actual experience
- Changes in actuarial assumptions
- Net difference between projected and actual investment earnings
- 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 position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Council has the following types of items related to its pension plan that qualify for reporting in this category:

- Differences between expected and actual experience

Compensated Absences

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

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

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

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas County and District Retirement System ("TCDRS") and additions to/deductions from TCERS's fiduciary net position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Policies

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

Fund Balance Flow Assumption

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

Net Position Flow Assumption

Sometimes the Council will fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Council's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

F. Revenues and expenditures/expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Federal, State, and Local Grant Revenues

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

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 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.

DETAILED NOTES ON ALL FUNDS

Cash Deposits with Financial Institutions

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. State statutes require that all of the Council's deposits in financial institutions be fully collateralized by U. S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2019, 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, 2019, the Council had the following investment:

<u>Investment Type</u>	<u>Net Asset Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Standard & Poor's Current Rating</u>
TexPool	\$ <u>654,340</u>	36	AAAm

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

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

Credit Risk. It is the Council's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization.

Capital Assets

Capital asset activity for the year ended September 30, 2019, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Government activities:					
Capital assets, not being depreciated:					
Land	\$ 690,000	\$ -	\$ -	\$ -	\$ 690,000
Total capital assets not being depreciated	<u>690,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>690,000</u>
Capital assets, being depreciated:					
Buildings and improvements	2,810,000	-	-	-	2,810,000
Machinery and equipment	<u>2,445,216</u>	<u>-</u>	<u>425,917</u>	<u>269,442</u>	<u>2,288,741</u>
Total capital assets being depreciated	<u>5,255,216</u>	<u>-</u>	<u>425,917</u>	<u>269,442</u>	<u>5,098,741</u>
Less accumulated depreciation:					
Buildings and improvements	1,088,250	70,250	-	-	1,158,500
Machinery and equipment	<u>2,284,522</u>	<u>75,852</u>	<u>425,917</u>	<u>222,456</u>	<u>2,156,913</u>
Total accumulated depreciation	<u>3,372,772</u>	<u>146,102</u>	<u>425,917</u>	<u>222,456</u>	<u>3,315,413</u>
Total capital assets, being depreciated, net	<u>1,882,444</u>	<u>(146,102)</u>	<u>-</u>	<u>46,986</u>	<u>1,783,328</u>
Governmental activities capital assets, net	<u>\$ 2,572,444</u>	<u>\$ (146,102)</u>	<u>\$ -</u>	<u>\$ 46,986</u>	<u>\$ 2,473,328</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 71,810
Transportation	52,556
Aging	3,084
Homeland security	<u>18,653</u>
Total depreciation expense - governmental activities	<u>\$ 146,102</u>

Rental Revenue

The Council leases a building to the Heart of Texas Workforce Development Board (HOTWDB) under a cancelable operating lease dated January 1, 2013. Rental revenues for the year ended September 30, 2019, were \$390,000.

Due to HOTEDD

The amount shown as "Due to HOTEDD" in the financial statements is owed to the Heart of Texas Economic Development District under the terms of a lease agreement. Under the terms of the agreement, rental revenues received by the Council for the rental of a building (see disclosure above) are first used to pay related debt service payments, insurance and maintenance costs. Any remaining rental receipts are owed to HOTEDD and must be used by HOTEDD for economic development projects.

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

Long-term Debt

A summary of long-term liability activity for the year ended September 30, 2019, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due in One Year</u>
Governmental activities:					
Notes payable	\$ 1,426,724	\$ -	\$ 202,434	\$ 1,224,290	\$ 212,830
Compensated absences payable	<u>121,513</u>	<u>110,699</u>	<u>99,837</u>	<u>132,375</u>	<u>119,138</u>
Total	<u>\$ 1,548,237</u>	<u>\$ 110,699</u>	<u>\$ 302,271</u>	<u>\$ 1,356,665</u>	<u>\$ 331,968</u>

Notes Payable

The Council has issued two notes payable for the purchase of land, a building, and related furnishings. The first note was issued in 2004 in an original amount of \$2,975,000, has an interest rate of 4.937%, and a maturity date of November 2024. The second note was issued in 2011 with an original amount of \$350,423, has an interest rate of 4.937% and a maturity date of November 2024.

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

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 202,538	\$ 66,771	\$ 269,309
2020	212,753	56,556	269,309
2021	223,810	45,499	269,309
2022	235,273	34,036	269,309
2023	247,324	21,985	269,309
2024	260,420	8,889	269,309
2025	<u>44,606</u>	<u>279</u>	<u>44,885</u>
Total	\$ <u>1,426,724</u>	\$ <u>234,015</u>	\$ <u>1,660,739</u>

Operating Leases

The Council leases a building to provide a facility for its operations under a cancelable operating lease with HOTEDD. Total cost for this lease was \$252,145 for the year ended September 30, 2019. The rental payments increase every three years by 3%.

Risk Management

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

Contingencies

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

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

Some of the audits of the delegate agencies' expenditures for the year ended September 30, 2019, have not been completed. Based on prior experience, the Council management believes that the Council will not incur significant losses from possible grant disallowances.

3. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Benefits Provided

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

Members can retire at age 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. Updated annuity purchase rates will go into effect for post-2018 benefit accruals earned after 2018. Benefits accrued before 2019 will not be impacted by this update. This change was reflected in the 2017 actuarial valuation.

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

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

Employees covered by benefit terms

At the December 31, 2018, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>29</u>
	<u>36</u>

Contributions

The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings, as adopted by the employer's governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Under the state law governing TCDRS, the contribution rate for each entity is determined annually by the actuary and approved by the TCDRS Board of Trustees. The replacement life entry age actuarial cost method is used in determining the contribution rate. The actuarially determined rate is the estimated amount necessary to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin, with an additional amount to finance any unfunded accrued liability.

Employees for the Council were required to contribute 4% of their annual gross earnings during the fiscal year. The contribution rate for the Council was 6.98% for the three months in calendar year 2018 and 7.06% for the nine months in calendar year 2019. The Council's contributions to TCDRS for the year ended September 30, 2019, were \$103,600, and were equal to the required contributions.

Net Pension Liability

The Council's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Overall payroll growth	0% per year
Investment rate of return	8.0%, net of administration and investment expenses, including inflation

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

130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. scale after that.

Updated mortality assumptions were adopted in the actuarial valuation of December 31, 2018. All other actuarial assumptions that determined the total pension liability as of December 31, 2018, were based on the results of an actuarial experience study for the period January 1, 2013, through December 31, 2016, except where Governmental Accounting Standards Board Statement No. 68 required otherwise.

The long-term expected rate of return on pension plan investments is 8.0%, 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⁾
US Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
Int'l Equities - Developed Markets	MSCI World Ex USA (net)	10.00%	5.40%
Int'l Equities - Emerging Markets	MSCI EM Standard (net) Index	7.00%	5.90%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

⁽¹⁾ Target asset allocation adopted at the April 2019 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.70% per Cliffwater's 2019 capital market assumptions.

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

⁽⁴⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

⁽⁵⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the total pension liability was 8.1%. 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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance as of December 31, 2017	\$ 412,891	\$ 397,238	\$ 15,653
Changes for the year:			
Service cost	160,432	-	160,432
Interest on total pension liability ⁽¹⁾	46,381	-	46,381
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	4,413	-	4,413
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	(1,457)	(1,457)	-
Administrative expenses	-	(444)	444
Member contributions	-	57,892	(57,892)
Net investment income	-	(5,642)	5,642
Employer contributions	-	101,023	(101,023)
Other ⁽³⁾	-	4,731	(4,731)
Balance as of December 31, 2018	<u>\$ 622,661</u>	<u>\$ 553,341</u>	<u>\$ 69,320</u>

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

⁽²⁾ No plan changes valued.

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

Sensitivity Analysis

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

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 710,787	\$ 622,661	\$ 548,873
Fiduciary net position	<u>553,341</u>	<u>553,341</u>	<u>553,341</u>
Net pension liability/(asset)	<u>\$ 157,446</u>	<u>\$ 69,320</u>	<u>\$ (4,468)</u>

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2019, the Council recognized pension expense of \$113,377.

At September 30, 2019, 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	\$ 11,961	\$ 3,878
Changes in actuarial assumptions	-	1,989
Net difference between projected and actual investment earnings	-	32,741
Contributions made subsequent to the measurement date	<u>-</u>	<u>77,529</u>
Total	<u>\$ 11,961</u>	<u>\$ 116,136</u>

\$77,529 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2018	\$ 7,343
2019	6,941
2020	5,627
2021	7,522
2022	(1,325)
Thereafter	539

**REQUIRED
SUPPLEMENTARY
INFORMATION**

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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 - ending (a) - (b)	\$ 1,439	\$ 13,952	\$ 15,653	\$ 69,320
Fiduciary net position as a percentage of total pension liability	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%

Information for the previous 6 years is not available. GASB 68 was implemented in fiscal year 2016. The Council enrolled in TCDRS in fiscal year 2016.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2019	\$ 103,600	\$ 103,600	\$ -	\$ 1,471,706	7.0%
2018	100,850	100,850	-	1,446,974	7.0%
2017	100,323	100,323	-	1,449,834	6.9%
2016	99,680	99,680	-	1,444,644	6.9%

Information for the previous 7 years is not available. GASB 68 was implemented in fiscal year 2016. The Council also enrolled in TCDRS in fiscal year 2016.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Valuation Timing	Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which the contributions are reported.
<u>Methods and assumptions used to determine contributions rates:</u>	
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	17.4 years (based on contribution rate calculated in 12/31/2018 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation.
Retirement Age	Members who are legible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
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.
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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HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES BY OBJECT

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Texas Department of Aging and Disability Services	Texas Criminal Justice Division	U. S. Department of Housing and Urban Development	Texas Department of Transportation
EXPENDITURES				
Salaries	\$ 355,005	\$ 29,849	\$ 4,478	\$ 114,166
Benefits	156,032	13,117	1,968	50,173
Delegate agencies	1,840,936	50,225	-	425,088
Contractual services	39,690	15,930	-	319,476
Office space	71,336	6,933	3,188	13,955
Supplies and materials	11,919	2,969	76	86,350
Travel	25,229	4,124	-	1,701
Repairs and maintenance	-	-	-	84,162
Utilities/telephone	7,690	1,504	80	14,537
Other	39,463	639	894	24,804
Debt service	-	-	-	-
Indirect cost allocation	<u>302,131</u>	<u>25,402</u>	<u>3,812</u>	<u>97,162</u>
Total expenditures	\$ <u>2,849,431</u>	\$ <u>150,692</u>	\$ <u>14,496</u>	\$ <u>1,231,574</u>

Texas Commission on Environmental Quality	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
\$ 26,701	\$ 81,179	\$ 54,480	\$ 30,857	\$ 158,146	\$ -	\$ 854,861
11,737	35,679	23,944	63,651	69,504	-	425,805
-	1,060,006	-	-	-	-	3,376,255
63,250	-	-	70,810	-	-	509,156
6,631	22,515	20,625	14,591	21,389	-	181,163
1,137	23,575	1,921	17,701	805	-	146,453
1,991	3,038	10,731	10,038	889	-	57,741
-	-	-	-	-	-	84,162
694	2,519	1,612	1,986	1,062	-	31,684
7,451	1,892	80	3,060	11,672	313,580	403,535
-	-	-	-	-	269,309	269,309
<u>22,726</u>	<u>69,087</u>	<u>46,363</u>	<u>55,872</u>	<u>134,586</u>	<u>-</u>	<u>757,141</u>
<u>\$ 142,318</u>	<u>\$ 1,299,490</u>	<u>\$ 159,756</u>	<u>\$ 268,566</u>	<u>\$ 398,053</u>	<u>\$ 582,889</u>	<u>\$ 7,097,265</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

YEAR ENDED SEPTEMBER 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
INDIRECT COSTS			
Salaries	\$ 379,416	\$ 387,731	\$ (8,315)
Benefits	<u>166,770</u>	<u>170,408</u>	<u>(3,638)</u>
Total indirect salaries and benefits	<u>546,186</u>	<u>558,139</u>	<u>(11,953)</u>
Travel	8,000	9,336	(1,336)
Supplies	4,500	4,393	107
Legal fees	1,000	540	460
Audit	32,700	32,700	-
Space costs	117,211	121,113	(3,902)
Communications	3,600	3,705	(105)
Copies/printing	7,200	8,796	(1,596)
Computer costs	49,000	50,151	(1,151)
Postage	7,900	6,847	1,053
Insurance/bonding	3,200	3,440	(240)
Dues/subscriptions/publications	17,000	14,982	2,018
Other costs/miscellaneous	3,800	2,885	915
Prior period carry forward	<u>34,449</u>	<u>-</u>	<u>34,449</u>
Total other indirect costs	<u>289,560</u>	<u>258,888</u>	<u>30,672</u>
Total indirect costs	835,746	817,027	18,719
Less: HOTEDD admin/fiscal contracts	<u>(51,398)</u>	<u>(51,398)</u>	<u>-</u>
Net indirect costs	<u>\$ 784,348</u>	<u>765,629</u>	<u>\$ 18,719</u>
Indirect costs recovered		<u>(757,625)</u>	
Current year over (under) recovery to be recaptured in future years		(8,004)	
Over (under) recovery carried forward from previous years		<u>(47,651)</u>	
Cumulative over (under) recovery to be recovered in future years		<u>\$(55,655)</u>	
CALCULATION OF INDIRECT COST RATE:			
Adjusted gross salaries	\$ 1,301,103	\$ 1,277,388	
Net fringe benefits recovered	571,891	561,668	
Less: indirect salaries and benefits	<u>(546,186)</u>	<u>(558,139)</u>	
Total program personnel costs	<u>\$ 1,326,808</u>	<u>\$ 1,280,917</u>	
Indirect rate	<u>59.12%</u>	<u>59.77%</u>	

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FRINGE BENEFITS

YEAR ENDED SEPTEMBER 30, 2019

	<u>Actual</u>	<u>Budget</u>
Payroll taxes	\$ 109,258	\$ 112,357
Group insurance	181,095	185,498
Retirement contribution	103,600	103,692
Release time	204,609	167,620
Prior period carryforward	<u>-</u>	<u>2,724</u>
TOTAL FRINGE BENEFITS	\$ <u>598,562</u>	\$ <u>571,891</u>
TOTAL WAGES	\$ 1,277,388	\$ 1,301,103
EMPLOYEE BENEFIT RATE	46.86%	43.95%
FRINGE BENEFITS RECOVERED	<u>561,668</u>	
CURRENT YEAR OVER (UNDER) RECOVERY TO BE RECAPTURED IN FUTURE YEARS	(36,894)	
OVER (UNDER) RECOVERY CARRIED FORWARD FROM PREVIOUS YEARS	<u>(97,821)</u>	
CUMULATIVE OVER (UNDER) RECOVERY TO BE RECOVERED IN FUTURE YEARS	\$(<u>134,715</u>)	

SINGLE AUDIT

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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 each major fund of the Heart of Texas Council of Governments (the "Council") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated March 4, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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

Our consideration of internal control 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 may exist that have not been identified.

Compliance and Other Matters

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

OFFICE LOCATIONS

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

Purpose of this Report

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

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

Waco, Texas
March 4, 2020



**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 THE STATE OF
TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

Executive Committee
Heart of Texas Council of Governments
Waco, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Heart of Texas Council of Governments' (the "Council's") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* and the *State of Texas Uniform Grant Management Standards* ("UGMS"), issued by the Texas Comptroller of Public Accounts, that could have a direct and material effect on each of the Council's major federal and state programs for the year ended September 30, 2019. The Council's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*; and UGMS. Those standards, the *Uniform Guidance* and UGMS require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Council's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2019.

OFFICE LOCATIONS

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

Report on Internal Control over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the *Uniform Guidance* and *UGMS*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance* and *UGMS*. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
March 4, 2020

HEART OF TEXAS COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL AWARDS				
<u>U. S. Department of Commerce</u>				
Passed through the Heart of Texas Economic Development District:				
Continuation Planning Assistance	11.302	FED18AUS3020009	\$ 72,817	\$ -
Total Heart of Texas Economic Development District			<u>72,817</u>	<u>-</u>
Total U. S. Department of Commerce			<u>72,817</u>	<u>-</u>
<u>U. S. Department of Housing and Urban Development</u>				
Passed through the Texas Department of Agriculture:				
TxCDBG - Community and Economic Development Fund	14.228	C717215	11,060	-
TxCDBG - Community and Economic Development Fund	14.228	C718215	<u>858</u>	<u>-</u>
Total Texas Department of Agriculture			<u>11,918</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>11,918</u>	<u>-</u>
<u>U. S. Department of Justice</u>				
Passed through the State of Texas Governor's Office, Criminal Justice Division:				
2017-2018 Purchase of Juvenile Justice Alternatives	16.540	1424119	(10)	-
Total State of Texas Governor's Office, Criminal Justice Division			<u>(10)</u>	<u>-</u>
Total U. S. Department of Justice			<u>(10)</u>	<u>-</u>
<u>U. S. Department of Transportation</u>				
Passed through the Texas Department of Transportation:				
Rural Public Transportation Section 5311	20.509	51018020917	(12,737)	-
Rural Public Transportation Section 5311	20.509	51018010918	453,620	104,220
Rural Public Transportation Section 5311	20.509	51018011819	<u>5,527</u>	<u>-</u>
Subtotal 20.509			<u>446,410</u>	<u>104,220</u>
Elderly and Disabled - Section 5310	20.513	51016010918	16,564	16,564
Elderly and Disabled - Section 5310	20.513	51016010919	128,425	128,425
Elderly and Disabled - Section 5310	20.513	51016040919	<u>14,563</u>	<u>14,563</u>
Subtotal Transit Services Programs Cluster			<u>159,552</u>	<u>159,552</u>
Total Texas Department of Transportation			<u>605,962</u>	<u>263,772</u>
Total U. S. Department of Transportation			<u>605,962</u>	<u>263,772</u>
<u>U. S. Department of Health and Human Services</u>				
Passed through Texas Department of Aging and Disability Services:				
2019 Title VII - EAP	93.041	539-16-0019-00001	4,032	-

The accompanying notes are an
integral part of this schedule.

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

YEAR ENDED SEPTEMBER 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL AWARDS (Continued)				
<u>U. S. Department of Health and Human Services (Continued)</u>				
Passed through Texas Department of Aging and Disability Services (continued):				
2019 Title VII - OM	93.042	539-16-0019-00001	\$ 32,362	\$ -
2019 Title III - D Evidence Based Intervention	93.043	539-16-0019-00001	24,311	-
2018 Title III - B	93.044	539-16-0019-00001	9,911	-
2019 Title III - B	93.044	539-16-0019-00001	398,966	-
2019 PY Title III - B	93.044	539-16-0019-00001	83,279	-
2019 Title III - C1	93.045	539-16-0019-00001	235,117	188,708
2019 PY Title III - C1	93.045	539-16-0019-00001	64,433	64,433
2019 Title III - C2	93.045	539-16-0019-00001	446,391	422,730
2019 PY Title III - C2	93.045	539-16-0019-00001	10,538	10,538
2019 NSIP	93.053	539-16-0019-00001	201,269	201,269
Subtotal Aging Cluster			<u>1,449,904</u>	<u>887,678</u>
2018 Title III - E	93.052	539-16-0019-00001	111	-
2019 Title III - E	93.052	539-16-0019-00001	82,088	25,300
2019 PY Title III - E	93.052	539-16-0019-00001	38,724	18,700
Subtotal 93.052			<u>120,923</u>	<u>44,000</u>
2018 Medicare Improvements for Patients & Providers Act	93.071	539-16-0019-00001	12,812	-
2019 ADRC Medicare Improvements for Patients & Providers Act	93.071	539-14-0475-00003	10,142	-
Subtotal 93.071			<u>22,954</u>	<u>-</u>
2019 ADRC Texas Lifespan Program	93.072	539-14-0475-00003	13,174	-
2019 Health Information, Counseling, and Advocacy Program (HICAP)	93.324	539-16-0019-00001	54,727	-
2019 ADRC Housing	93.791	539-14-0475-00003	45,338	-
2019 ADRC Local Contact Agency (OC)	93.791	539-14-0475-00003	6,307	-
2020 ADRC Housing Navigator	93.791	539-14-0475-00003	6,162	-
2020 ADRC Local Contact Agency (OC)	93.791	539-14-0475-00003	550	-
2020 ADRC Respite	93.791	539-14-0475-00003	1,830	-
Subtotal 93.791			<u>60,187</u>	<u>-</u>
Total Texas Department of Aging and Disability Services			<u>1,782,574</u>	<u>931,678</u>
Total U. S. Department of Health and Human Services			<u>1,782,574</u>	<u>931,678</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

YEAR ENDED SEPTEMBER 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
FEDERAL AWARDS (Continued)				
<u>U. S. Department of Homeland Security</u>				
Passed through Texas Governor's Office, Homeland Security Grants Division:				
2016 Homeland Security Grant Program - Regional Communication Equipment	97.067	3547201	\$ 1,883	\$ -
2017 Homeland Security Grant Program - Regional Planning	97.067	2954103	50,802	-
2017 Homeland Security Grant Program - Regional Citizen Corps Program	97.067	2954003	2,228	-
2017 Homeland Security Grant Program - Regional Emergency Notification System	97.067	2953603	6,060	-
2018 Homeland Security Grant Program - ENS Information Share	97.067	2953604	68,200	-
2018 Homeland Security Grant Program - Regional Citizen Corps Program	97.067	2954004	11,034	-
2018 Homeland Security Grant Program - Regional Planning	97.067	2954104	<u>95,051</u>	<u>-</u>
Total Texas Governor's Office, Homeland Security Grants Division			<u>235,258</u>	<u>-</u>
Total U. S. Department of Homeland Security			<u>235,258</u>	<u>-</u>
Total Federal Awards			<u>\$ 2,708,519</u>	<u>\$ 1,195,450</u>

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HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued) YEAR ENDED SEPTEMBER 30, 2019

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures
STATE AWARDS		
<u>Texas Commission on Environmental Quality</u>		
Solid Waste Planning	582-18-80538	\$ 133,610
Solid Waste Planning	582-20-10213	6,908
Total Texas Commission on Environmental Quality		<u>140,518</u>
<u>Texas Governor's Office, Criminal Justice Division</u>		
2017-2019 Regional Law Enforcement Training	1784710	64,038
2019-2021 Regional Law Enforcement Training	1784711	5,951
2018-2019 Purchase of Juvenile Justice Alternatives	1424120	51,868
Total Texas Governor's Office, Criminal Justice Division		<u>121,857</u>
<u>Texas Department of Aging and Disability Services</u>		
2019 State General Revenue (SGR)	539-16-0019-00001	100,976
2018 Assisted Living Facility Long-Term Care Ombudsman	539-16-0019-00001	21,604
2019 Assisted Living Facility Long-Term Care Ombudsman	539-16-0019-00001	1,808
SGR/Housing Bond (9/1/18 - 8/31/19)	539-16-0019-00001	23,189
ADRC State General Revenue (SGR)	539-14-0475-00003	97,482
ADRC Promoting Independence	539-14-0475-00003	16,215
ADRC State General Revenue (SGR)	539-14-0475-00003	6,758
Total Texas Department of Aging and Disability Services		<u>268,032</u>
<u>Texas Commission on State Emergency Communications</u>		
2017 - 911 Emergency Communications	N/A	457,234
2018 - 911 Emergency Communications	N/A	18,519
2019 - 911 Emergency Communications	N/A	782,076
2019 - 911 Emergency Communications	N/A	33,725
Total Texas Commission on State Emergency Communications		<u>1,291,554</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

YEAR ENDED SEPTEMBER 30, 2019

State Grantor/ Grant Description	Pass-through Entity Identifying Number	Total State Expenditures
STATE AWARDS (Continued)		
<u>Texas Department of Transportation</u>		
Rural Public Transportation - Section 5311	51218010918	\$(1,754)
Rural Public Transportation - Section 5311	51218010919	530,847
Rural Public Transportation - Section 5311	51218011820	36,584
Subtotal		<u>565,677</u>
RTAP Scholarship	N/A	<u>356</u>
Total Texas Department of Transportation		<u>566,033</u>
<u>Texas Health and Human Services Commission</u>		
2018-2019 211 Area Information - Childcare	529-16-0006-00007G	10,446
2018-2019 211 Area Information - Operational	529-16-0006-00007G	356,900
2019-2020 211 Area Information - Childcare	529-16-0006-00007H	669
2019-2020 211 Area Information - Operational	529-16-0006-00007H	<u>30,037</u>
Total Texas Health and Human Services Commission		<u>398,052</u>
Total State Awards		<u>\$ 2,786,046</u>

HEART OF TEXAS COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EXPENDITURES OF

FEDERAL AND STATE AWARDS

SEPTEMBER 30, 2019

1. GENERAL

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

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the *State of Texas Uniform Grant Management Standards* ("UGMS"). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. NEGATIVE AMOUNTS

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

4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Grant expenditure reports as of September 30, 2019, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are often prepared at different dates and sometimes reflect refined estimates of year-end accruals. The reports will agree at termination of the grant, as the discrepancies noted are timing differences.

5. INDIRECT COSTS

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

HEART OF TEXAS COUNCIL OF GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Summary of Auditors' Results

Financial Statements:

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

Federal and State Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) or the State of Texas Uniform Grant Management Standards?	No
---	----

Identification of major programs:

CFDA Number(s)	Name of Program or Cluster:
#93.044, 93.045, 93.053	Aging Cluster
State	Rural Public Transportation -
	Section 5311
State	CSEC 911

Dollar threshold used to distinguish between type A and type B federal programs	\$750,000
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Dollar threshold used to distinguish between type A and type B state programs	\$300,000
---	-----------

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

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

None

Findings and Questioned Costs for Federal and State Awards

None



Mayor Protem Alice Rodriguez
President

Judge Don Pool
Vice-President

Councilmember Mike Thompson
Secretary/Treasurer

Russell Devorsky
Executive Director

Heart of Texas
Council of Governments

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

FOR THE YEAR ENDED SEPTEMBER 30, 2019

None

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