



**REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2020**

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**ARK-TEX COUNCIL OF GOVERNMENTS**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Ark-Tex Council of Governments  
Texarkana, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ark-Tex Council of Governments (the "Council"), as of and for the year ended September 30, 2020, 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

The Council's 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 auditor's 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.

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### 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Ark-Tex Council of Governments, as of September 30, 2020, and the respective changes in financial position thereof 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 and required supplementary information, as listed in the table of contents, 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 combining fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is 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 State of Texas *Uniform Grant Management Standards*, and is also not a required part of the basic financial statements.

The combining fund financial statements, supplemental schedules 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 combining fund financial statements, 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 June 23, 2021, 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 the effectiveness of the Council's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

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

Waco, Texas  
June 23, 2021

## Management's Discussion and Analysis

As management of the Ark-Tex Council of Governments, we offer readers of the Council's financial statements this narrative overview and analysis of the financial activities of the Council for the fiscal year ended September 30, 2020.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of Ark-Tex Council of Governments exceeded its liabilities as of September 30, 2020, by \$7,908,745 (net position).
- The Council's total net position increased by \$837,994.
- As of the close of the current fiscal year, Ark-Tex Council of Governments' governmental funds reported combined ending fund balances of \$4,986,697, an increase of \$211,749 in comparison with the prior year.
- As of September 30, 2020, unassigned fund balance for the General Fund was \$3,091,520.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements. The Council's basic financial 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 themselves.

**Government-wide Financial Statements** – The government-wide financial 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 between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Council is improving or deteriorating.

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 the underlying event giving 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 the future fiscal periods (e.g., earned but unused compensated absences). The government-wide financial statements can be found on pages 7 – 9 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds 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 two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Commission on State Emergency Communications Fund.

The Council’s Board approves a financial plan for revenue and expenditures in all funds. Although the financial plans are reviewed and approved by the Council’s Board, they are not considered legally adopted budgets or appropriations. Accordingly, comparative budget and actual results are not presented in this report.

The basic governmental fund financial statements can be found on pages 10 – 11 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 beginning on page 13 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents other schedules that further support the information in the financial statements. The other schedules begin on page 24 of this report.

**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 case of Ark-Tex Council of Governments, assets and deferred outflows of resources exceeded liabilities by \$7,908,745 as of September 30, 2020.

A portion of the Council’s net position, \$2,687,506, reflects its net investment in capital assets (e.g., land and building and equipment). The Council uses these capital assets to provide services; consequently, these assets are not available for future spending. Another portion of the Council’s net position \$705,806 is restricted for federal and state programs. The remaining portion of the Council’s net position \$4,515,433 is unrestricted.

**GOVERNMENT-WIDE NET POSITION**

	Governmental Activities	
	2020	2019
Current assets	\$ 5,868,990	\$ 5,837,445
Capital assets	<u>3,124,544</u>	<u>2,647,245</u>
Total assets	<u>8,993,534</u>	<u>8,484,690</u>
 Deferred outflows	 <u>126,283</u>	 <u>128,301</u>
 Long-term liabilities	 538,074	 577,121
Other liabilities	<u>661,401</u>	<u>954,384</u>
Total liabilities	<u>1,199,475</u>	<u>1,531,505</u>
 Deferred inflows	 11,597	 10,735
 Net position:		
Net investment in capital assets	2,687,506	2,167,566
Restricted for federal and state programs	705,806	604,227
Unrestricted	<u>4,515,433</u>	<u>4,298,958</u>
 Total net position	 \$ <u><u>7,908,745</u></u>	 \$ <u><u>7,070,751</u></u>



The following table provides a summary of the Council’s operations for the year ended September 30, 2020. Governmental activities increased the Council’s net position by \$837,994.

**GOVERNMENT-WIDE CHANGES IN NET POSITION**

	Governmental Activities	
	2020	2019
Revenues:		
Program revenues:		
Charges for services	\$ 122,826	\$ 213,086
Operating grants and contributions	17,165,061	17,752,143
General revenues:		
Miscellaneous income	174,988	76,981
Investment earnings	55,122	69,870
Total revenues	<u>17,517,997</u>	<u>18,112,080</u>
Expenses:		
General government	913,043	943,906
Housing and urban development	7,519,221	7,667,887
Aging	1,905,950	1,998,538
Transportation	4,007,952	3,257,019
Emergency communications	1,944,906	3,013,825
Environmental quality	97,920	158,670
Homeland security	134,466	116,046
Criminal justice	145,936	189,072
Interest on long-term debt	10,609	11,078
Total expenses	<u>16,680,003</u>	<u>17,356,041</u>
Change in net position	837,994	756,039
Net position, beginning	7,070,751	6,314,712
Net position, ending	<u>\$ 7,908,745</u>	<u>\$ 7,070,751</u>

The Council is approximately 100% percent funded by federal, state, and local grants and contributions, which determine funding for the region and the availability of services to be provided. During the current fiscal year, federal and state grant revenue decreased \$587,082 (3%). The largest increases in grant revenue were in the Texas Department of Transportation program \$449,498 and the U.S. Department of Homeland Security \$18,390 . The largest decrease in grant revenue was in the Commission on State Emergency Communications \$1,056,693 . Total expenses increased by \$676,038 (4%).

**FINANCIAL ANALYSIS OF THE COUNCIL’S FUNDS**

**Governmental Funds** – The focus of Ark-Tex Council of Governments’ governmental funds is to provide information on near-term inflows, outflows, and balances of spendable 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, Ark-Tex Council of Governments’ governmental funds reported combined ending fund balances of \$4,986,697. Approximately 62% of this total amount \$3,091,520 constitutes unassigned fund balance. The remainder of the fund balance \$1,895,177 is either nonspendable, restricted, committed, or assigned. Refer to page 10 of this report for a more detailed presentation of governmental fund balances and page 16 of this report for a more detailed description of fund balance classifications.

## CAPITAL ASSETS

The Ark-Tex Council of Governments' investment in capital assets for its governmental activities as of September 30, 2020, amounts to \$3,124,544 (net of accumulated depreciation). This investment in capital assets includes land, building and equipment. Capital assets as of the end of the current fiscal year included the following:

	2020	2019
Land	\$ 273,500	\$ 273,500
Buildings	1,786,423	1,786,423
Equipment	5,342,560	5,843,021
Less: accumulated depreciation	( 4,277,939)	( 5,255,699)
Total capital assets	\$ 3,124,544	\$ 2,647,245

Additional information on the Council's capital assets can be found in Note 4, page 18 of this report.

## DEBT ADMINISTRATION

At the end of the current fiscal year, the Council had only one debt issue, a note payable issued in 2007 for the acquisition and renovation of the office at 4808 Elizabeth Street, Texarkana, Texas. At the close of the fiscal year, the Council owed \$437,038 on the note. Additional information on the Council's long-term debt can be found on page 18 of this report.

## ECONOMIC FACTORS

The Ark-Tex Council of Governments is dependent on federal and state 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 such as the Council.

## REQUESTS FOR INFORMATION

The 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, contact Melinda Tickle, Finance Manager, at:

Ark-Tex Council of Governments  
4808 Elizabeth Street  
Texarkana, Texas 75503  
Telephone Number: (903) 832-8636  
Email address: [Mtickle@atcog.org](mailto:Mtickle@atcog.org)

**BASIC  
FINANCIAL STATEMENTS**

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**ARK-TEX COUNCIL OF GOVERNMENTS**

STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

	Primary Governmental Activities	Component Units	
		NETEDD	ATRDC
<b>ASSETS</b>			
Cash and investments	\$ 3,053,391	\$ 3,082,136	\$ 21,805
Receivables:			
Grantors	936,848	-	-
Notes receivable	1,138,289	2,213,247	-
Other	35,288	-	-
Prepaid items	3,083	-	-
Net pension asset	220,892		
Under allocated indirect costs and employee benefits (	37,564)	2,083	
Due from component units	518,763	-	5,855
Capital assets:			
Land	273,500	-	-
Buildings	1,786,423	-	-
Equipment	5,342,560	-	-
Less: accumulated depreciation	( 4,277,939)	-	-
Total capital assets	<u>3,124,544</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>8,993,534</u>	 <u>5,297,466</u>	 <u>27,660</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	<u>126,283</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	<u>126,283</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>			
Accounts payable	169,991	296	-
Due to primary government/ Component Unit	-	524,618	-
Due to Texarkana Urban Transit District	305,071	-	-
Accrued liabilities	134,668	9,381	6,133
Unearned revenue	51,671	-	-
Due within one year:			
Note payable	45,300	-	-
Compensated absences	101,036	-	-
Due in more than one year:			
Note payable	391,738	-	-
Total liabilities	<u>1,199,475</u>	<u>534,295</u>	<u>6,133</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	<u>11,597</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>11,597</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,687,506	-	-
Restricted for federal and state programs	705,806	4,763,171	-
Unrestricted	<u>4,515,433</u>	<u>-</u>	<u>21,527</u>
 Total net position	 <u>\$ 7,908,745</u>	 <u>\$ 4,763,171</u>	 <u>\$ 21,527</u>

The accompanying notes are an integral part of these financial statements.

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**ARK-TEX COUNCIL OF GOVERNMENTS**  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Expenses	Indirect Cost Allocation	Expenses After Allocation of Indirect Costs
<b>Primary government</b>			
Governmental activities:			
General government	\$ 836,156	\$ 76,887	\$ 913,043
Housing and urban development	7,379,838	139,383	7,519,221
Aging	1,782,098	123,852	1,905,950
Transportation	3,547,149	460,803	4,007,952
Emergency communications	1,843,279	101,627	1,944,906
Environmental quality	79,581	18,339	97,920
Homeland security	117,193	17,273	134,466
Criminal justice	128,415	17,521	145,936
Indirect costs	987,831	( 987,831)	-
Interest on long-term debt	10,609	-	10,609
Total governmental activities	<u>16,712,149</u>	<u>( 32,146)</u>	<u>16,680,003</u>
<b>Component units</b>			
NETEDD	183,056	20,901	203,957
ATRDC	40,695	11,245	51,940
Total component units	<u>\$ 223,751</u>	<u>\$ 32,146</u>	<u>\$ 255,897</u>

**General revenues:**

Unrestricted investment earnings  
Miscellaneous  
Total general revenues  
Change in net position  
Net position - beginning  
Net position - ending

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Primary Government	Component Units	
Charges for Services	Operating Grants and Contributions	Governmental Activities	NETEDD	ATRDC
\$ 60,769	\$ 1,036,974	\$ 184,700	\$ -	\$ -
-	7,894,846	375,625	-	-
7,132	1,913,038	14,220	-	-
54,925	3,990,253	37,226	-	-
-	1,948,432	3,526	-	-
-	98,646	726	-	-
-	135,818	1,352	-	-
-	147,054	1,118	-	-
-	-	-	-	-
-	-	( 10,609)	-	-
<u>122,826</u>	<u>17,165,061</u>	<u>607,884</u>	<u>-</u>	<u>-</u>
120,378	3,222,841	-	3,139,262	-
<u>44,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 7,029)</u>
\$ <u>165,289</u>	\$ <u>3,222,841</u>	<u>-</u>	<u>3,139,262</u>	<u>( 7,029)</u>
		55,122	11,596	3,246
		<u>174,988</u>	<u>515,336</u>	<u>-</u>
		<u>230,110</u>	<u>526,932</u>	<u>3,246</u>
		837,994	3,666,194	( 3,783)
		<u>7,070,751</u>	<u>1,096,977</u>	<u>25,310</u>
		\$ <u>7,908,745</u>	\$ <u>4,763,171</u>	\$ <u>21,527</u>

The accompanying notes are an integral part of these financial statements.



**ARK-TEX COUNCIL OF GOVERNMENTS**

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2020

	<u>General</u>	<u>Commission on State Emergency Communications</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	3,053,391	\$ -	\$ 3,053,391
Receivables:			
Grantors	769,356	167,492	936,848
Notes	1,138,289	-	1,138,289
Other	35,288	-	35,288
Prepaid items	3,083	-	3,083
Due from other funds	57,442	-	57,442
Under (over) allocated indirect costs and employee benefits	( 37,564)	-	( 37,564)
Due from component unit	518,763	-	518,763
Total assets	<u>\$ 5,538,048</u>	<u>\$ 167,492</u>	<u>\$ 5,705,540</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 88,454	\$ 81,537	\$ 169,991
Accrued liabilities	106,155	28,513	134,668
Due to other funds	-	57,442	57,442
Due to Texarkana Urban Transit District	305,071	-	305,071
Unearned revenue	51,671	-	51,671
Total liabilities	<u>551,351</u>	<u>167,492</u>	<u>718,843</u>
Fund balances:			
Nonspendable	3,083	-	3,083
Restricted for:			
Housing and Urban Development	705,806	-	705,806
Committed for Chapman Revolving Loan Fund	622,663	-	622,663
Assigned for:			
ETRAP/RBEG Revolving Loan Fund	563,625	-	563,625
Unassigned	3,091,520	-	3,091,520
Total fund balances	<u>4,986,697</u>	<u>-</u>	<u>4,986,697</u>
Total liabilities and fund balances	<u>\$ 5,538,048</u>	<u>\$ 167,492</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,124,544
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>( 202,496)</u>
Net position of governmental activities	<u>\$ 7,908,745</u>

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**ARK-TEX COUNCIL OF GOVERNMENTS**

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General</u>	<u>Commission on State Emergency Communications</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Federal	\$ 12,735,109	\$ -	\$ 12,735,109
State	758,205	1,934,056	2,692,261
Local	1,723,315	14,376	1,737,691
Program income	62,057	-	62,057
Membership dues	60,769	-	60,769
Investment income	50,187	4,935	55,122
Miscellaneous	174,988	-	174,988
Total revenues	<u>15,564,630</u>	<u>1,953,367</u>	<u>17,517,997</u>
<b>EXPENDITURES</b>			
Current:			
General government	853,722	-	853,722
Housing and urban development	7,556,318	-	7,556,318
Aging	1,917,583	-	1,917,583
Transportation	4,595,135	-	4,595,135
Emergency communications	-	1,950,123	1,950,123
Environmental quality	98,518	-	98,518
Homeland security	134,772	-	134,772
Criminal justice	146,827	-	146,827
Debt service:			
Principal	42,641	-	42,641
Interest	7,365	3,244	10,609
Total expenditures	<u>15,352,881</u>	<u>1,953,367</u>	<u>17,306,248</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>211,749</u>	<u>-</u>	<u>211,749</u>
<b>FUND BALANCE, BEGINNING</b>	<u>4,774,948</u>	<u>-</u>	<u>4,774,948</u>
<b>FUND BALANCE, ENDING</b>	\$ <u>4,986,697</u>	\$ <u>-</u>	\$ <u>4,986,697</u>

The accompanying notes are an integral part of these financial statements.

**ARK-TEX 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, 2020

Net change in fund balances - total governmental funds:	\$ 211,749
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	477,299
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, this transaction has no effect on net position	42,641
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.	<u>106,305</u>
Change in net position of governmental activities	\$ <u>837,994</u>

# ARK-TEX COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Ark-Tex 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 Ark-Tex Council of Governments (the "Council") is a political subdivision organized under the statutes of the States of Arkansas and Texas, and is actively engaged in obtaining and administering various contracts and grants from state and federal agencies.

The accompanying financial statements present the Council and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

#### **Discretely Presented Component Units**

The Ark-Tex Regional Development Company, Inc. (ATRDC) was created for the purpose of furthering the economic development and social welfare of its member counties by promoting and assisting the growth and development of business concerns, including small business concerns, in the area.

The North East Texas Economic Development District (NETEDD) was created to formulate, develop and administer a program for long-range economic growth in order to improve economic conditions in the District.

Both ATRDC and NETEDD are part of the Council's financial reporting entity because of the significant influence the Council holds over the programs, projects, and activities of each entity.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by intergovernmental revenue.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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, state financial assistance, and interest are susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Council.

The Council reports the following major governmental funds:

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

The **Commission on State Emergency Communications Fund** is used to account for the activities of grants received from the Commission on State Emergency Communications that are legally restricted to expenditure for specified purposes.

### **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. Employee Benefits Allocation Plan**

Employee benefits are allocated to grants on a percentage determined by dividing the total estimated employee benefit costs by the estimated chargeable salaries (total salaries less release time for vacation, sick leave and holiday).

The budgeted rate for the fiscal year ended September 30, 2020, was 35.2% and the actual rate was 45.7%.

The cumulative difference between actual and allocated employee benefits at September 30, 2020, was an under-allocation of \$191,499. The Council's approved benefits allocation plan provides for carryforward adjustments in the second subsequent year for under or over-allocations of actual employee benefit costs. The financial statements therefore reflect under-allocations as an asset and over-allocations as a liability.

### **F. Indirect Cost Allocation**

The indirect cost allocation plan of the Council charges indirect costs to grants on a percentage determined by dividing the estimated indirect costs for the period by the estimated total direct personnel costs. Total direct personnel costs include direct charge salaries and related employee benefits determined in accordance with the employee benefit allocation plan described above. Direct charges for space costs, printing and reproduction, telephone, postage and related equipment rental are made to the applicable grants.

The budgeted allocation rate for the fiscal year ended September 30, 2020, was 29.3% and the actual rate was 20.5%. The difference resulted in a cumulative over-allocation of indirect costs at September 30, 2020, of \$229,063. Consistent with the benefits allocation plan described earlier, the allocation differences are reflected as an asset or liability in the financial statements.

**G. Assets, Liabilities and Net Position or Equity**

**Cash and Investments**

Cash and equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash and cash equivalents in the Council’s financial statements include amounts in demand deposits and certificates of deposits. Interest is distributed according to each fund’s relative percentage of the total pool.

State statutes authorize the Council to invest in obligations of the United States, its agencies, certificates of deposits with banks and savings and local associations, bankers’ acceptances, commercial paper, mutual funds, investment pools and repurchase agreements with underlying collateral of government securities. The Council currently has no investments.

**Grants Receivable**

Grants receivable represent 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, 2020.

**Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.”

**Unearned Revenue**

Unearned revenue represents amounts received from grantors in excess of expenditures for programs in progress as of September 30, 2020.

**Capital Assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Capital assets of the primary government are depreciated using the straight-line method over the following useful lives:

Assets	Years
Buildings	15 - 20
Equipment	3 - 7

**Compensated Absences**

Employees earn ten (10) days of vacation per year during the first 5 years of service. From 6 to 9 full years of service, an employee earns 12 ½ days of vacation per year. During service years 10 until separation or retirement, employees accrue 15 days of vacation annually. Employees will be paid for accrued vacation upon voluntary termination of employment provided they have been in a permanent fulltime position for six months or more.

Regular fulltime employees are entitled to accrue 9 days of paid sick leave per year. At the time an employee's sick leave balance reaches maximum accrual (480 hours), the employee will not accrue any further sick leave nor will the employee be compensated for any excess.

### **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 and proprietary fund 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.

### **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.

### **Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Council is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

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



## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$477,299 difference are as follows:

Capital outlay	\$	1,159,604
Depreciation expense	(	682,305)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$	<u>477,299</u>

## 3. BUDGETARY INFORMATION

The Board approves budgets for revenue and expenditures in all governmental funds. Budgets are made on a project (grant) basis, spanning more than one year. Appropriations for all projects lapse at the end of a contract period, which may not coincide with the fiscal year-end of ATCOG. Although the budgets are reviewed and approved by ATCOG’s Board, they are not considered legally adopted annual budgets or appropriations. Accordingly, budgetary information is not presented in this report.

## 4. DETAILED NOTES ON ALL FUNDS

### Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Council to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the Council to invest in (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers’ acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the Council to have independent auditors perform test procedures related to investment practices as provided by the Act. The Council is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the **Public Funds Investment Act**, the Council has adopted a deposit and investment policy. That policy addresses the following risks:

**Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that, in the event of a bank failure, the Council’s deposit may not be returned to it. As of September 30, 2020, the Council’s deposit balance was fully collateralized with securities held by the pledging financial institution in the Council’s name or by FDIC insurance.

**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.

**Concentration of Credit Risk:** Preservation and safety of principal shall be ensured through the allocation and diversification of portfolio consistent with the Council's investment policy, state and federal regulations and prudent investment practices. Only those securities allowed by the Council's investment policy and the Public Funds Investment Act of 1987 shall be purchased as part of the Fund's portfolio.

**Long-term Debt**

Long-term liability activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Note payable	\$ 479,679	\$ -	\$ ( 42,641)	\$ 437,038	\$ 45,300
Compensated absences	<u>97,442</u>	<u>132,791</u>	<u>( 129,197)</u>	<u>101,036</u>	<u>101,036</u>
Governmental activities long-term liabilities	<u>\$ 577,121</u>	<u>\$ 132,791</u>	<u>\$ ( 171,838)</u>	<u>\$ 538,074</u>	<u>\$ 146,336</u>

Typically, all governmental funds assist in liquidating the leave time liability based on corresponding personnel costs.

Annual debt service requirements to maturity for notes payable are as follows:

Fiscal Year Ending September 30,	Governmental Activities		Total
	Principal	Interest	
2021	\$ 45,300	\$ 18,710	\$ 64,010
2022	47,381	16,629	64,010
2023	49,557	14,452	64,009
2024	51,834	12,175	64,009
2025	54,215	9,794	64,009
2026-2028	<u>188,751</u>	<u>13,976</u>	<u>202,727</u>
Total	<u>\$ 437,038</u>	<u>\$ 85,736</u>	<u>\$ 522,774</u>

**Capital Assets**

Primary government capital asset activity for the year ended September 30, 2020, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 273,500	\$ -	\$ -	\$ 273,500
Total capital assets, not being depreciated	<u>273,500</u>	<u>-</u>	<u>-</u>	<u>273,500</u>
Capital assets, being depreciated:				
Buildings	1,786,423	-	-	1,786,423
Furniture, fixtures and equipment	<u>5,843,021</u>	<u>1,159,604</u>	<u>( 1,660,065)</u>	<u>5,342,560</u>
Total capital assets, being depreciated	<u>7,629,444</u>	<u>1,159,604</u>	<u>( 1,660,065)</u>	<u>7,128,983</u>
Less: accumulated depreciation for:				
Buildings	( 1,118,479)	( 103,112)	-	( 1,221,591)
Furniture, fixtures and equipment	<u>( 4,137,220)</u>	<u>( 579,193)</u>	<u>1,660,065</u>	<u>( 3,056,348)</u>
Total accumulated depreciation	<u>( 5,255,699)</u>	<u>( 682,305)</u>	<u>1,660,065</u>	<u>( 4,277,939)</u>
Total capital assets being depreciated, net	<u>2,373,745</u>	<u>477,299</u>	<u>-</u>	<u>2,851,044</u>
Governmental activities capital assets, net	<u>\$ 2,647,245</u>	<u>\$ 477,299</u>	<u>\$ -</u>	<u>\$ 3,124,544</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 60,906
Housing and urban development	8,745
Transportation	605,528
Emergency communications	6,614
Homeland security	<u>512</u>
Total depreciation expense - governmental activities	<u>\$ 682,305</u>

**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](http://www.tcdrs.org).

All full 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 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 8 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 75 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. By law, employee accounts earn 7% interest. 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.

***Employees covered by benefit terms***

At the December 31, 2019 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	51
Active employees	<u>109</u>
	<u>161</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 rates for the Council were 4% in calendar years 2019 and 2020, respectively. The Council's contributions to TCDRS for the year ended September 30, 2020, were \$139,636 and equal to the required contributions.

## Net Pension Liability/ (Asset)

The Council's Net Pension Liability (NPL) was measured as of December 31, 2019, 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, 2019, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Overall payroll growth	1.0% per year
Investment rate of return	8.0%, net of administration and investment expenses, including inflation

The Council has no automatic cost-of-living adjustments ("COLA") and one is not considered to be substantively automatic. Therefore, no assumption for future cost-of-living adjustments is included in the actuarial valuation. Each year, the Council may elect an ad-hoc COLA for its retirees.

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

Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	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.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Updated mortality assumptions were adopted in the actuarial valuation of December 31, 2019. All other actuarial assumptions that determined the total pension liability as of December 31, 2019, were based on the results of an actuarial experience study for the period January 1, 2013, through December 31, 2016.

The long-term expected rate of return on pension plan investments is 8.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information below are based on April 2020 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. 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 <sup>(1)</sup>	Geometric Real Rate of Return (Expected minus Inflation) <sup>(2)</sup>
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	20.00%	8.20%
Global Equities	MSCI World (net) Index	2.50%	5.50%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	7.00%	5.20%
Int'l Equities - Emerging Markets	MSCI Emerging Markets (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond index	3.00%	-0.20%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	3.14%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	4.00%	6.90%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	3.00%	4.50%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	5.50%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	8.00%	2.30%

<sup>(1)</sup> Target asset allocation adopted at the June 2020 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80% per Cliffwater's 2020 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

### **Discount Rate**

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

### Changes in the Net Pension Liability/ (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	\$ 369,339	\$ 477,452	\$ ( 108,113)
Changes for the year:			
Service cost	170,792	-	170,792
Interest on total pension liability <sup>(1)</sup>	42,794	-	42,794
Effect of economic/demographic gains or losses	20,854	-	20,854
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	( 20,022)	( 20,022)	-
Benefit payments	( 4,078)	( 4,078)	-
Administrative expenses	-	( 610)	610
Member contributions	-	130,713	( 130,713)
Net investment income	-	78,166	( 78,166)
Employer contributions	-	130,713	( 130,713)
Other <sup>(2)</sup>	-	8,237	( 8,237)
Balance at 12/31/2019	\$ <u>579,679</u>	\$ <u>800,571</u>	\$ <u>( 220,892)</u>

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

<sup>(2)</sup> 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-point higher (9.1%) than the current rate:

	1% Decrease	Current	1% Increase
	7.1%	Discount Rate 8.1%	9.1%
Total pension liability	\$ 668,371	\$ 579,679	\$ 506,629
Fiduciary net position	<u>800,571</u>	<u>800,571</u>	<u>800,571</u>
Net pension liability/(asset)	\$ <u>( 132,200)</u>	\$ <u>( 220,892)</u>	\$ <u>( 293,942)</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](http://www.tcdrs.org).

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

For the year ended September 30, 2020, the Council recognized pension expense of \$29,737. At year-end, the Council reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,054	\$ 8,588
Changes in actuarial assumptions	354	-
Net difference between projected and actual investment earnings	-	3,009
Contributions made subsequent to the measurement date	<u>107,875</u>	<u>-</u>
Total	<u>\$ 126,283</u>	<u>\$ 11,597</u>

\$107,875 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, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2021	\$ 2,893
2022	2,893
2023	1,762
2024	(4,418)
2025	3,681

## 5. OTHER INFORMATION

### **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's management believes such coverage is sufficient to preclude any significant uninsured losses to the Council. There were no significant reductions in insurance coverage from coverage in the prior year. There were no insurance settlements that exceeded insurance coverage in any of the past three years.

### **Contingencies**

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

Agencies expending \$500,000 or more in the Council's grant funds are required to have an independent audit each year. Copies of such audits are required to be submitted to the Council. If such audits disclose expenditures not in accordance with terms of the grants, the grantor agency could disallow the costs and require reimbursements of the disallowed costs either from the Council or the subcontractor. The Council generally has the right of recovery from the subcontracted agencies.

Audits of the agency's expenditures for the year ended September 30, 2020, have not been completed. Based on prior experience, the Council's management believes that the Council will not incur significant losses from possible grant disallowances.

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## **SUPPLEMENTAL INFORMATION**

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**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF REVENUES AND EXPENDITURES  
BY FUNDING SOURCE

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Governor's Office of Criminal Justice	Texas Department of Transportation	Texas Commission on Environmental Quality
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUES</b>			
Federal	\$ -	\$ 3,325,885	\$ 13,726
State	147,054	306,083	84,920
Local	-	358,285	-
Program income	-	54,925	-
Membership dues	-	-	-
Investment earnings	-	-	324
Miscellaneous	-	-	-
Total revenues	<u>147,054</u>	<u>4,045,178</u>	<u>98,970</u>
<b>EXPENDITURES</b>			
General government	-	-	-
Housing and urban development	-	-	-
Aging	-	-	-
Transportation	-	4,595,135	-
Emergency communications	-	-	-
Environmental quality	-	-	98,518
Homeland security	-	-	-
Criminal justice	146,827	-	-
Debt service:			
Principal	-	-	-
Interest	<u>227</u>	<u>213</u>	<u>452</u>
Total expenditures	<u>\$ 147,054</u>	<u>\$ 4,595,348</u>	<u>\$ 98,970</u>

U. S. Department of Housing and Urban Development	Texas Department of Aging and Disability Services	U. S. Department of Homeland Security	Commission on State Emergency Communications	Other	Total Governmental Funds
\$ 7,686,855	\$ 1,572,825	\$ 135,818	\$ -	\$ -	\$ 12,735,109
66,078	154,070	-	1,934,056	-	2,692,261
141,913	186,143	-	14,376	1,036,974	1,737,691
-	7,132	-	-	-	62,057
-	-	-	-	60,769	60,769
3,536	-	-	4,935	46,327	55,122
-	-	-	-	174,988	174,988
<u>7,898,382</u>	<u>1,920,170</u>	<u>135,818</u>	<u>1,953,367</u>	<u>1,319,058</u>	<u>17,517,997</u>
-	-	-	-	853,722	853,722
7,556,318	-	-	-	-	7,556,318
-	1,917,583	-	-	-	1,917,583
-	-	-	-	-	4,595,135
-	-	-	1,950,123	-	1,950,123
-	-	-	-	-	98,518
-	-	134,772	-	-	134,772
-	-	-	-	-	146,827
-	-	-	-	42,641	42,641
<u>2,386</u>	<u>2,587</u>	<u>1,046</u>	<u>3,244</u>	<u>454</u>	<u>10,609</u>
<u>\$ 7,558,704</u>	<u>\$ 1,920,170</u>	<u>\$ 135,818</u>	<u>\$ 1,953,367</u>	<u>\$ 896,817</u>	<u>\$ 17,306,248</u>

**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ (ASSET)  
AND RELATED RATIOS

SEPTEMBER 30, 2020

<b>Plan Year Ended December 31</b>	<u><b>2017</b></u>	<u><b>2018</b></u>	<u><b>2019</b></u>
<b>Total Pension Liability</b>			
Service Cost	\$ 178,488	\$ 178,428	\$ 170,792
Interest total pension liability	14,422	29,375	42,794
Effect of assumption changes or inputs	566	-	-
Effect of economic/demographic (gains) or losses	1,080	( 12,881)	20,854
Benefit payments/refunds of contributions	<u>( 889)</u>	<u>( 19,250)</u>	<u>( 24,100)</u>
Net change in total pension liability	193,667	175,672	210,340
Total pension liability - beginning	<u>-</u>	<u>193,667</u>	<u>369,339</u>
Total pension liability - ending (a)	<u>\$ 193,667</u>	<u>\$ 369,339</u>	<u>\$ 579,679</u>
<b>Plan Fiduciary Net Position</b>			
Employer contributions	\$ 117,659	\$ 125,443	\$ 130,713
Member contributions	117,659	125,443	130,713
Investment income net of investment expenses	3,771	( 1,906)	78,166
Benefit payments refunds of contributions	<u>( 889)</u>	<u>( 19,250)</u>	<u>( 24,100)</u>
Administrative expenses	<u>( 160)</u>	<u>( 383)</u>	<u>( 610)</u>
Other	<u>3,140</u>	<u>6,925</u>	<u>8,237</u>
Net change in plan fiduciary net position	241,180	236,272	323,119
Plan fiduciary net position - beginning	<u>-</u>	<u>241,180</u>	<u>477,452</u>
Plan fiduciary net position - ending (b)	<u>241,180</u>	<u>477,452</u>	<u>800,571</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$( 47,513)</u>	<u>\$( 108,113)</u>	<u>\$( 220,892)</u>
Fiduciary net position as a percentage of total pension liability	124.53%	124.53%	138.11%
Pensionable covered payroll	\$ 2,941,486	\$ 3,136,075	\$ 3,267,832
Net pension liability as a percentage of covered payroll	-1.62%	-3.45%	-6.76%

Note: This schedule is required to include 10 years of information, but information prior to 2017 is not available.

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**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2020

<u>Fiscal Year Ended September 30</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll (1)</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2017	83,715	83,715	-	2,092,881	4.0%
2018	129,422	129,422	-	3,235,550	4.0%
2019	128,917	128,917	-	3,222,928	4.0%
2020	139,636	139,636	-	3,490,911	4.0%

(1) Payroll is calculated based on contributions as reported to TCDRS.

Note: This schedule is required to include 10 years of information, but information prior to 2017 is not available.

## ARK-TEX COUNCIL OF GOVERNMENTS

### SCHUEDLE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2020

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.
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	0.0 years (based on contribution rate calculated in 12/31/2019 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 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	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Health 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	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule. 2019: No changes in plan provisions were reflected in the



**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF EMPLOYEE BENEFITS AND COMPUTATION  
OF EMPLOYEE BENEFIT RATE - BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budget</u>	<u>Actual</u>
<b>EMPLOYEE SALARY BENEFITS</b>		
Salaries (release time):		
Vacations	\$ 139,762	\$ 129,197
Holidays	168,822	149,656
Sick leave	60,293	69,836
Liability differential	<u>1,000</u>	<u>-</u>
Total employee salary benefits	<u>369,877</u>	<u>348,689</u>
<b>OTHER EMPLOYEE BENEFITS</b>		
Longevity pay benefit	13,410	13,215
Health/life insurance	543,177	539,548
Payroll taxes	256,865	241,602
Unemployment insurance	33,577	8,368
Workers' compensation insurance	97,296	43,522
Retirement	<u>134,309</u>	<u>126,433</u>
Total other employee benefits	<u>1,078,634</u>	<u>972,688</u>
Total salary and other employee benefits	<u>1,448,511</u>	<u>1,321,377</u>
<b>PRIOR YEARS OVER ALLOCATION</b>		
Fiscal year 2018 cumulative over allocation	( 359,830)	-
Fiscal year 2019 anticipated over allocation	( 36,898)	-
Total prior years under allocation	<u>( 396,728)</u>	<u>-</u>
Total employee benefits and carryforward	<u>1,051,783</u>	<u>1,321,377</u>
<b>BASIS FOR ALLOCATION</b>		
Gross salaries	3,357,718	3,240,856
Less release time	<u>369,877</u>	<u>348,689</u>
Total chargeable salaries	<u>2,987,841</u>	<u>2,892,167</u>
<b>RATE COMPUTATION</b>		
Total employee benefits	1,051,783	1,321,377
Total chargeable salaries	<u>2,987,841</u>	<u>2,892,167</u>
Computed rate	<u>35.2%</u>	<u>45.7%</u>
<b>ALLOCATION</b>		
Total actual benefits	-	1,321,377
Allocated to grants and local activities	-	( 913,524)
Allocated to indirect cost pool	<u>-</u>	<u>( 153,870)</u>
<b>UNDER (OVER) ALLOCATED - CARRY OVER TO 2020 COST PROPOSAL</b>	-	253,983
<b>PRIOR YEAR CUMULATIVE UNDER (OVER) ALLOCATION</b>	<u>-</u>	<u>( 62,484)</u>
<b>TOTAL CUMULATIVE UNDER (OVER) ALLOCATION</b>	<u>\$ -</u>	<u>\$ 191,499</u>

**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF INDIRECT COSTS AND COMPUTATION  
OF INDIRECT COST RATE - BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budget</u>	<u>Actual</u>
<b>INDIRECT COSTS</b>		
Salaries	\$ 445,160	\$ 435,584
Benefits	<u>158,395</u>	<u>153,870</u>
Total salaries and benefits	603,555	589,454
Audit	38,000	34,625
Travel	32,000	3,345
Office rental	29,100	30,647
Office supplies	11,950	4,472
Copy services	1,850	2,013
Telephone	14,214	9,401
Postage	3,875	4,373
Other	100,750	65,981
Fiscal year 2018 cumulative over allocation	<u>171,900</u>	<u>-</u>
Total indirect costs	<u>1,007,194</u>	<u>744,311</u>
<b>BASIS FOR ALLOCATION</b>		
Direct salaries	2,542,681	2,456,583
Direct benefits	<u>893,388</u>	<u>1,167,507</u>
Total direct personnel costs	<u>3,436,069</u>	<u>3,624,090</u>
<b>INDIRECT COST RATE COMPUTATION</b>		
Total indirect costs	1,007,194	744,311
Total direct personnel costs	<u>3,436,069</u>	<u>3,624,090</u>
Computed rate	<u>29.3%</u>	<u>20.5%</u>
<b>ALLOCATION</b>		
Total actual indirect costs	-	744,311
Indirect costs allocated	<u>-</u>	<u>( 999,614)</u>
<b>UNDER (OVER) ALLOCATED - CARRY OVER TO 2020 COST PROPOSAL</b>	-	( 255,303)
<b>PRIOR YEAR CUMULATIVE UNDER (OVER) ALLOCATION</b>	<u>-</u>	<u>26,240</u>
<b>TOTAL CUMULATIVE UNDER (OVER) ALLOCATION</b>	\$ <u>-</u>	\$ <u>( 229,063)</u>

# **SINGLE AUDIT**

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**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**

Board of Directors  
Ark-Tex Council of Governments  
Texarkana, Texas

We have audited, 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, the financial statements of the governmental activities, the major fund, and the discretely presented component units of Ark-Tex Council of Governments (the "Council") as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June 23, 2021.

***Internal Control over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

## **Purpose of this Report**

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

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

Waco, Texas  
June 23, 2021

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

Board of Directors  
Ark-Tex Council of Governments  
Texarkana, Texas

### **Report on Compliance for Each Major Federal and State Program**

We have audited the Ark-Tex 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 State of Texas *Uniform Grant Management Standards* (UGMS), issued by the Governor's Office of Budget and Planning, 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, 2020. 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 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, 2020.

## **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 Uniform Guidance and UGMS. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas  
June 23, 2021



**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures	Pass-through Expenditures
<b>FEDERAL AWARDS - PRIMARY GOVERNMENT</b>				
<u>U. S. Department of Housing and Urban Development</u>				
Passed through the Texas Department of Agriculture:				
Community and Economic Development Assistance Funds	14.228	C717212	\$ 4,504	\$ -
Total Passed through the Texas Department of Agriculture			<u>4,504</u>	<u>-</u>
Direct Program:				
Section 8 Housing Choice Vouchers	14.871	TX499	<u>7,682,351</u>	<u>-</u>
Total Direct Program			<u>7,682,351</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>7,686,855</u>	<u>-</u>
<u>U. S. Department of Transportation</u>				
Passed through Texas Department of Transportation:				
Metropolitan Transportation Planning	20.505	REG 1801 (19) 073_16	22,979	-
Metropolitan Transportation Planning	20.505	REG 1901 (19) 24-15	<u>25,000</u>	<u>-</u>
Subtotal 20.505			<u>47,979</u>	<u>-</u>
Section 5311 Rural Transportation	20.509	ICB 1901 (19)030_18	123,164	-
Section 5311 Rural Transportation	20.509	FR 1901 (19) 051-18	141,182	-
Section 5311 Rural Transportation	20.509	DIS 1901 (19) 018-19	696,000	-
Section 5311 Rural Transportation	20.509	ICB 1902 (19)030_18	16,189	-
Section 5311 Rural Transportation	20.509	RPT 1903 (19) 39_19	419,590	-
Section 5311 Rural Transportation	20.509	ICB 2002 (19) 072-20	27,582	-
Section 5311 Rural Transportation	20.509	ICB 2001 (19) 072-20	146,129	-
Section 5311 Rural Transportation	20.509	CAF 2001 (19) 072-20	<u>1,465,575</u>	<u>-</u>
Subtotal 20.509			<u>3,035,411</u>	<u>-</u>
Section 5310 Transportation for Elderly and Disabled	20.513	ED 1902 (19) 059_18	56,953	-
Section 5310 Transportation for Elderly and Disabled	20.513	ED 1903 (19) 074-19	<u>25,760</u>	<u>-</u>
Subtotal 20.513			<u>82,713</u>	<u>-</u>
Section 5339 Federal Bus Facilities Program	20.526	BBF 1901 (19) 045-18	<u>159,782</u>	<u>-</u>
Total Passed through Texas Department of Transportation			<u>3,325,885</u>	<u>-</u>
Total U. S. Department of Transportation			<u>3,325,885</u>	<u>-</u>

**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures	Pass-through Expenditures
<u>Environmental Protection Agency</u>				
Passed through Texas Commission on Environmental Quality:				
Water Quality	66.454	582-20-10164	\$ 12,942	\$ -
Water Quality	66.454	582-21-10081	784	-
Total Passed through Texas Commission on Environmental Quality			<u>13,726</u>	-
Total Environmental Protection Agency			<u>13,726</u>	-
<u>U. S. Department of Health and Human Services</u>				
Passed through Texas Department of Aging and Disability Services:				
Title VII-EAP	93.041	539-16-0022-00001	471	-
PY Title VII-EAP	93.041	539-16-0022-00001	17	-
Subtotal			<u>488</u>	-
Title VII-OM	93.042	539-16-0022-00001	2,853	-
PY Title VII-OM	93.042	539-16-0022-00001	2,371	-
Subtotal			<u>5,224</u>	-
Title III-D Evidence Based - Intervention	93.043	539-16-0022-00001	13,187	-
PY Title III-D Evidence Based - Intervention	93.043	539-16-0022-00001	6,916	-
Title III-D Disaster Flex	93.043	539-16-0022-00001	1,723	-
Subtotal			<u>21,826</u>	-
Title III-B	93.044	539-16-0022-00001	319,995	-
PY Title III-B	93.044	539-16-0022-00001	69,471	-
CARES Title III-B	93.044	539-16-0022-00001	66,008	-
Title III-C1	93.045	539-16-0022-00001	134,355	-
PY Title III-C1	93.045	539-16-0022-00001	57,420	-
COVID 19 - Title III-C1	93.045	539-16-0022-00001	23,687	-
Title III-C2	93.045	539-16-0022-00001	155,891	-
PY Title III-C2	93.045	539-16-0022-00001	44,938	-
COVID 19 - Title III-C2	93.045	539-16-0022-00001	186,892	-
CARES Title III-C2	93.045	539-16-0022-00001	60,503	-
NSIP	93.053	539-16-0022-00001	209,803	-
Subtotal Aging Cluster			<u>1,328,963</u>	-
Title III-E	93.052	539-16-0022-00001	117,852	-
PY Title III-E	93.052	539-16-0022-00001	12,260	-
CARES Title III-E	93.052	539-16-0022-00001	4,844	-
Subtotal			<u>134,956</u>	-
MIPPA Priority Area 2	93.071	539-16-0022-00001	6,112	-
ADRC Housing	93.071	539-16-0022-00001	3,333	-
Subtotal			<u>9,445</u>	-
HICAP	93.324	539-16-0022-00001	31,561	-
PY HICAP	93.324	539-16-0022-00001	40,362	-
Subtotal			<u>71,923</u>	-
Total Passed through Texas Department of Aging and Disability Services			<u>1,572,825</u>	-
Total U. S. Department of Health and Human Services			<u>1,572,825</u>	-

**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Grantor Number	Expenditures	Pass-through Expenditures
<b>U. S. Department of Homeland Security</b>				
Passed through the Texas Department of Public Safety				
Homeland Security Grant Program - SHSP 2018	97.067	2946005	\$ 135,818	\$ -
Subtotal			<u>135,818</u>	<u>-</u>
Total Passed through Texas Department of Public Safety			<u>135,818</u>	<u>-</u>
Total U. S. Department of Homeland Security			<u>135,818</u>	<u>-</u>
Total Federal Awards - Primary Government			<u>12,735,109</u>	<u>-</u>
<b>FEDERAL AWARDS - DISCRETELY PRESENTED COMPONENT UNITS</b>				
<b>U. S. Department of Commerce, Economic Development Administration</b>				
Direct Program:				
NETEDD 3 Year Planning Grant	11.302	ED18AUS3020012	<u>114,456</u>	<u>-</u>
Subtotal Economic Development Support Program			<u>114,456</u>	<u>-</u>
Revolving Loan Fund - NETEDD	11.307	08-57-02889	<u>3,862,109</u>	<u>-</u>
Total Direct Program			<u>3,976,565</u>	<u>-</u>
Total U. S. Department of Commerce, Economic Development Administration			<u>3,976,565</u>	<u>-</u>
Total Federal Awards - Discretely Presented Component Units			<u>3,976,565</u>	<u>-</u>
Total Federal Awards - Financial Reporting Entity			\$ <u>16,711,674</u>	\$ <u>-</u>

**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

State Grantor/ Program Title	State Grantor Number	Expenditures	Pass-through Expenditures
<b>STATE AWARDS</b>			
<u>Texas Department of Aging and Disability Services</u>			
State General Revenue Title III-E Match	539-16-0022-00001	\$ 66,500	\$ -
OMB ALF Services	539-16-0022-00001	28,550	-
State General Revenue -Other	539-16-0022-00001	28,749	-
State General Revenue - HDM Rate Increase	539-16-0022-00001	<u>30,271</u>	-
Total Texas Department of Aging and Disability Services		<u>154,070</u>	-
<u>Office of the Governor, Criminal Justice Division</u>			
Purchase of Juvenile Justice Alternatives	14266-20	<u>54,999</u>	-
Subtotal Purchase of Juvenile Justice Alternatives		<u>54,999</u>	-
Regional Law Enforcement Training	14264-20	<u>42,255</u>	-
Subtotal Regional Law Enforcement Training		<u>42,255</u>	-
Criminal Justice Coordination	300090191	<u>49,800</u>	-
Subtotal Criminal Justice Coordination		<u>49,800</u>	-
Total Office of the Governor, Criminal Justice Division		<u>147,054</u>	-
<u>Texas Department of Housing and Community Affairs</u>			
The Texas Balance of State Continuum of Care Program	42170002814	<u>66,078</u>	-
Total		<u>66,078</u>	-
<u>Texas Department of Transportation</u>			
Rural Transportation	51218011920	<u>306,083</u>	-
Total Texas Department of Transportation		<u>306,083</u>	-
<u>Texas Commission on Environmental Quality</u>			
Regional Solid Waste	582-20-10204	<u>84,920</u>	-
Total Texas Commission on Environmental Quality		<u>84,920</u>	-
<u>Commission on State Emergency Communications</u>			
911 Emergency Communications	2019	371,854	-
911 Emergency Communications	2020	1,447,602	-
911 Emergency Communications	2021	<u>114,600</u>	-
Total Commission on State Emergency Communications		<u>1,934,056</u>	-
Total State Awards		\$ <u>2,626,183</u>	\$ -

**ARK-TEX COUNCIL OF GOVERNMENTS**

NOTES TO SCHEDULE OF  
EXPENDITURES OF FEDERAL AND STATE AWARDS

SEPTEMBER 30, 2020

**1. GENERAL**

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards programs of the Ark-Tex Council of Governments. The Council's reporting entity is defined in Note 1 of the 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 financial statements. The information in this schedule is presented in accordance with the requirements of OMB *Compliance Supplement* 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. CALCULATION OF FEDERAL AWARDS EXPENDED FOR EDA REVOLVING LOAN FUND**

Expenditures for the EDA Revolving Loan Fund were calculated as follows:

Balance of RLF loans outstanding at 09/30/2020	\$	2,213,247
Cash and investment balance at 09/30/2020		2,760,362
Administrative costs during the fiscal year		<u>175,870</u>
Total EDA Revolving Loan Fund Expenditures		5,149,479
Federal Participation Rate		<u>75%</u>
Total Federal Share of EDA Revolving Loan Fund Expenditures	\$	<u>3,862,109</u>

**4. INDIRECT COSTS**

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

**ARK-TEX COUNCIL OF GOVERNMENTS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

**Summary of Auditors' Results**

Financial Statements:

Type of auditor's 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 auditor's report issued on compliance for major programs	Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Uniform Guidance or State of Texas Uniform Grant Management Standards? None

Identification of major programs:

CFDA Number(s)	Name of Federal/State Program or Cluster:
14.871	Section 8 Housing Choice Vouchers
20.509	Section 5311 Rural Transportation
State	911 Emergency Communications

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

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

Auditee qualified as low-risk auditee under Section 510(a) of Uniform Guidance? Yes

Auditee qualified as low-risk auditee under State of Texas Uniform Grant Management Standards? Yes

**Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With Government Auditing Standards**

None

**Findings and Questioned Costs for Federal and State Awards**

None

**ARK-TEX COUNCIL OF GOVERNMENTS**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

None

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Board of Directors  
Ark-Tex Council of Governments

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of Ark-Tex Council of Governments for the year ended September 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, OMB Uniform Guidance and the State of Texas *Uniform Grant Management Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 23, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Council solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, and, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

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## **OFFICE LOCATIONS**

**TEXAS** | Waco | Temple | Hillsboro | Houston

**NEW MEXICO** | Albuquerque

As a part of the engagement we assisted in preparing the financial statements, schedule of expenditures of federal and state awards, and related notes to the financial statements of the Council in conformity with U.S.

generally accepted accounting principles and the Uniform Guidance and the State of Texas Uniform *Grant Management Standards*. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Standards*.

In order to ensure we maintain our independence for performing these nonaudit services certain safeguards were applied to this engagement. Management assumed responsibility for the financial statements, schedule of expenditures of federal and state awards, and related notes to the financial statements and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements, schedule of expenditures of federal and state awards and related notes to the financial statements and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were overseen by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

## **Qualitative Aspects of Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Council is included in Note I to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the uncollectible accounts is based on historic collection rates and is in accordance with standard guidelines. We evaluated the key factors and assumptions used to develop the estimate of collectability in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the useful lives of capital assets is based on the expected lifespan of the asset in accordance with standard guidelines. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

### *Financial Statement Disclosures*

The disclosures in the financial statements are neutral, consistent, and clear.

## **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Council's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated June 23, 2021.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the Council, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Council's auditors.

### **Other Matters**

We applied certain limited procedures to the management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental schedules and the schedule of expenditures of federal and state awards, which accompany the financial statements but are not RSI. With respect to this supplementary

information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) issued the following statements which become effective for fiscal years 2021 and 2022.

Statement No. 84, Fiduciary Activities – This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus is generally on whether a government is controlling the assets of the fiduciary activity and on the beneficiaries with whom a fiduciary relationship exists. This Statement will become effective for the Council in fiscal year 2021.

Statement No. 87, Leases – This Statement will improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under the Statement a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resource, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the Council in fiscal year 2022.

### **Restriction on Use**

This information is intended solely for the use of the Executive Committee and management of the Council and is not intended to be and should not be used by anyone other than these specified parties.

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

Waco, Texas  
June 23, 2021