



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

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2016**

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# ARK-TEX COUNCIL OF GOVERNMENTS

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**ARK-TEX COUNCIL OF GOVERNMENTS**

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

## INDEPENDENT AUDITORS' REPORT

To the 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, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ark-Tex Council of Governments, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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 nonmajor fund financial statements, the 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 nonmajor fund financial statements, the supplemental schedules and the Schedule of Expenditures of Federal and State Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

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

Waco, Texas  
June 28, 2017

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## 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, 2016.

### FINANCIAL HIGHLIGHTS

- The assets of Ark-Tex Council of Governments exceeded its liabilities as of September 30, 2016, by \$6,388,000 (net position).
- The Council's total net position decreased by \$56,874.
- As of the close of the current fiscal year, Ark-Tex Council of Governments' governmental funds reported combined ending fund balances of \$4,847,328, an increase of \$492,027 in comparison with the prior year.
- As of September 30, 2016, unassigned fund balance for the General Fund was \$2,830,672.

### 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 and liabilities, with the difference between the two 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 10 – 11 of this report.

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

**Governmental Funds** – Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of 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 12 – 13 of this report.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 15 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 25 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 exceeded liabilities by \$6,388,000 as of September 30, 2016.

A portion of the Council’s net position \$1,614,519 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 \$160,772 is restricted for federal and state programs. The remaining portion of the Council’s net position \$4,612,709 is unrestricted.

### GOVERNMENT-WIDE NET POSITION

	Governmental Activities	
	2016	2015
Current assets	\$ 5,797,185	\$ 5,351,345
Capital assets	<u>2,091,832</u>	<u>2,672,235</u>
Total assets	<u>7,889,017</u>	<u>8,023,580</u>
Long-term liabilities	551,160	582,662
Other liabilities	<u>949,857</u>	<u>996,044</u>
Total liabilities	<u>1,501,017</u>	<u>1,578,706</u>
Net position:		
Net investment in capital assets	1,614,519	2,160,431
Restricted for federal and state programs	160,772	160,772
Unrestricted	<u>4,612,709</u>	<u>4,123,671</u>
Total net position	<u>\$ 6,388,000</u>	<u>\$ 6,444,874</u>

The following table provides a summary of the Council's operations for the year ended September 30, 2016. Governmental activities decreased the Council's net position by \$56,874.

### GOVERNMENT-WIDE CHANGES IN NET POSITION

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 264,835	\$ 248,406
Operating grants and contributions	14,545,098	15,943,339
Capital grants and contributions	-	-
General revenues:		
Grants and contributions not restricted	-	-
Miscellaneous income	23,837	4,554
Investment earnings	32,811	33,156
Total revenues	14,866,581	16,229,455
Expenses:		
General government	321,443	419,414
Housing and urban development	7,026,080	6,845,977
Aging	1,920,471	2,031,768
Transportation	3,269,574	3,596,032
Emergency communications	1,929,118	3,048,372
Environmental quality	118,541	133,746
Homeland security	167,119	181,171
Criminal justice	148,347	185,062
Interest on long-term debt	22,762	26,657
Total expenses	14,923,455	16,468,199
Change in net position	( 56,874)	( 238,744)
Net position, beginning	6,444,874	6,683,618
Net position, ending	\$ 6,388,000	\$ 6,444,874

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 (\$1,398,241) (-9%). The largest decreases in grant revenue were in the Commission on State Emergency Communications (\$1,146,229), the Texas Department of Aging and Disability Services (\$138,160) and the Texas Department of Transportation (\$580,241). The largest increase in grant revenue was in the Housing and Urban Development program (\$485,038) Total expenses decreased by \$1,141,050 (8%).

## 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 \$4,847,328. Approximately 58% of this total amount \$2,830,672 constitutes unassigned fund balance. The remainder of the fund balance \$2,016,656 is either nonspendable, restricted, committed, or assigned. Refer to page 12 of this report for a more detailed presentation of governmental fund balances and to pages 19-20 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, 2016, amounts to \$2,091,832 (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:

	<u>2016</u>	<u>2015</u>
Land	\$ 273,500	\$ 273,500
Buildings	1,786,423	1,786,423
Equipment	3,907,197	4,121,350
Less: accumulated depreciation	<u>( 3,875,288)</u>	<u>( 3,509,038)</u>
Total capital assets	<u>\$ 2,091,832</u>	<u>\$ 2,672,235</u>

Additional information on the Council's capital assets can be found in Note 4, page 22 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 \$477,313 on the note. Additional information on the Council's long-term debt can be found on page 22 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, 2016

	Primary Governmental Activities	Component Units	
		NETEDD	ATRDC
<b>ASSETS</b>			
Cash and investments	\$ 3,251,453	\$ 615,079	\$ 45,149
Receivables:			
Grantors	787,670	1,519	-
Notes receivable	1,134,417	634,503	-
Other	14,231	-	-
Prepaid items	13,853	-	-
Under allocated indirect costs and employee benefits	173,706		
Due from component units	275,023	-	-
Due from Texarkana Urban Transit District	146,832	-	-
Capital assets:			
Land	273,500	-	-
Buildings	1,786,423	-	-
Equipment	3,907,197	-	-
Less: accumulated depreciation	( 3,875,288)	-	-
Total capital assets	2,091,832	-	-
 Total assets	7,889,017	1,251,101	45,149
<b>LIABILITIES</b>			
Accounts payable	223,492	-	-
Due to primary government	-	231,766	43,257
Accrued liabilities	25,732	-	-
Unearned revenue	700,633	-	-
Due within one year:			
Note payable	477,313	-	-
Compensated absences	73,847	-	-
Total liabilities	1,501,017	231,766	43,257
<b>NET POSITION</b>			
Net investment in capital assets	1,614,519	-	-
Restricted for federal and state programs	160,772	1,019,335	-
Unrestricted	4,612,709	-	1,892
 Total net position	\$ 6,388,000	\$ 1,019,335	\$ 1,892

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, 2016**

						Net (Expense) Revenue and Changes in Net Position		
	Expenses	Indirect Cost Allocation	Expenses After Allocation of Indirect Costs	Program Revenues		Primary Government	Component Units	
				Charges for Services	Operating Grants and Contributions	Governmental Activities	NETEDD	ATRDC
<b>Primary government</b>								
Governmental activities:								
General government	\$ 317,637	\$ 3,806	\$ 321,443	\$ 60,793	\$ 488,267	\$ 227,617	\$ -	\$ -
Housing and urban development	6,944,902	81,178	7,026,080	15,186	7,276,172	265,278	-	-
Aging	1,852,687	67,784	1,920,471	27,350	1,896,777	3,656	-	-
Transportation	3,032,599	236,975	3,269,574	78,497	2,603,713	( 587,364)	-	-
Emergency communications	1,867,783	61,335	1,929,118	23,175	1,906,388	445	-	-
Environmental quality	108,176	10,365	118,541	-	119,212	671	-	-
Homeland security	152,901	14,218	167,119	-	165,687	( 1,432)	-	-
Criminal justice	136,582	11,765	148,347	59,834	88,882	369	-	-
Indirect costs	514,157	( 514,157)	-	-	-	-	-	-
Interest on long-term debt	22,762	-	22,762	-	-	( 22,762)	-	-
Total governmental activities	<u>14,950,186</u>	<u>( 26,731)</u>	<u>14,923,455</u>	<u>264,835</u>	<u>14,545,098</u>	<u>( 113,522)</u>	<u>-</u>	<u>-</u>
<b>Component units</b>								
NETEDD	321,534	11,757	333,291	25,836	61,519	-	( 245,936)	-
ATRDC	<u>130,102</u>	<u>14,974</u>	<u>145,076</u>	<u>23,615</u>	<u>54,197</u>	<u>-</u>	<u>-</u>	<u>( 67,264)</u>
Total component units	<u>\$ 451,636</u>	<u>\$ 26,731</u>	<u>\$ 478,367</u>	<u>\$ 49,451</u>	<u>\$ 115,716</u>	<u>-</u>	<u>( 245,936)</u>	<u>( 67,264)</u>
<b>General revenues:</b>								
Unrestricted investment earnings						32,811	2,174	294
Miscellaneous						<u>23,837</u>	<u>-</u>	<u>-</u>
Total general revenues						<u>56,648</u>	<u>2,174</u>	<u>294</u>
Change in net position						( 56,874)	( 243,762)	( 66,970)
Net position - beginning						<u>6,444,874</u>	<u>1,263,097</u>	<u>68,862</u>
Net position - ending						<u>\$ 6,388,000</u>	<u>\$ 1,019,335</u>	<u>\$ 1,892</u>

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

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**ARK-TEX COUNCIL OF GOVERNMENTS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2016**

	<u>General</u>	<u>Commission on State Emergency Communications</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments	\$ 2,243,006	\$ 1,008,447	\$ 3,251,453
Receivables:			
Grantors	682,716	104,954	787,670
Notes	1,134,417	-	1,134,417
Other	14,231	-	14,231
Prepaid items	13,853	-	13,853
Due from other funds	562,069	-	562,069
Under allocated indirect costs and employee benefits	173,706	-	173,706
Due from component unit	275,023	-	275,023
Due from Texarkana Urban Transit District	<u>146,832</u>	<u>-</u>	<u>146,832</u>
Total assets	<u>5,245,853</u>	<u>1,113,401</u>	<u>6,359,254</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	223,492	-	223,492
Accrued liabilities	25,732	-	25,732
Due to other funds	-	562,069	562,069
Unearned revenue	<u>149,301</u>	<u>551,332</u>	<u>700,633</u>
Total liabilities	<u>398,525</u>	<u>1,113,401</u>	<u>1,511,926</u>
Fund balances:			
Nonspendable	13,853	-	13,853
Restricted for:			
Housing and Urban Development	136,968	-	136,968
Transportation	23,804	-	23,804
Committed for Chapman Revolving Loan Fund	1,061,035	-	1,061,035
Assigned for:			
ETRAP/RBEG Revolving Loan Fund	729,567	-	729,567
Criminal Justice	51,429	-	51,429
Unassigned	<u>2,830,672</u>	<u>-</u>	<u>2,830,672</u>
Total fund balances	<u>4,847,328</u>	<u>-</u>	<u>4,847,328</u>
Total liabilities and fund balances	<u>\$ 5,245,853</u>	<u>\$ 1,113,401</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.

2,091,832

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

( 551,160)

Net position of governmental activities

\$ 6,388,000

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

**ARK-TEX COUNCIL OF GOVERNMENTS**

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

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>General</u>	<u>Commission on State Emergency Communications</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Federal	\$ 10,214,188	\$ -	\$ 10,214,188
State	982,622	1,903,647	2,886,269
Local	1,513,527	23,175	1,536,702
Program income	105,847	-	105,847
Membership dues	60,793	-	60,793
Investment income	36,204	2,741	38,945
Miscellaneous	<u>23,837</u>	<u>-</u>	<u>23,837</u>
Total revenues	<u>12,937,018</u>	<u>1,929,563</u>	<u>14,866,581</u>
<b>EXPENDITURES</b>			
Current:			
General government	259,006	-	259,006
Housing and urban development	7,015,629	-	7,015,629
Aging	1,920,471	-	1,920,471
Transportation	2,766,644	-	2,766,644
Emergency communications	-	1,924,663	1,924,663
Environmental quality	118,541	-	118,541
Homeland security	164,000	-	164,000
Criminal justice	148,347	-	148,347
Debt service:			
Principal	34,491	-	34,491
Interest	<u>17,862</u>	<u>4,900</u>	<u>22,762</u>
Total expenditures	<u>12,444,991</u>	<u>1,929,563</u>	<u>14,374,554</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	492,027	-	492,027
<b>FUND BALANCE, BEGINNING</b>	<u>4,355,301</u>	<u>-</u>	<u>4,355,301</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 4,847,328</u>	<u>\$ -</u>	<u>\$ 4,847,328</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, 2016

Net change in fund balances - total governmental funds:	\$	492,027
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.	(	580,403)
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		34,491
The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report a loss on the disposal of capital assets.		-
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>2,989</u> )
Change in net position of governmental activities	\$	<u>( 56,874)</u>

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# ARK-TEX COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

### 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, 2016, was 56.8% and the actual rate was 53.8%.

The cumulative difference between actual and allocated employee benefits at September 30, 2016, was an under-allocation of \$62,397. 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, 2016, was 17.5% and the actual rate was 28.2%. The difference resulted in a cumulative under-allocation of indirect costs at September 30, 2016, of \$111,309. 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, 2016.

### **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, 2016.

### **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 \$(580,403) difference are as follows:

Depreciation expense	\$ <u>580,403</u>
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><u>580,403</u></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 Center 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, 2016, 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, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Note payable	\$ 511,804	\$ -	\$( 34,491)	\$ 477,313	\$ 477,313
Compensated absences	<u>70,858</u>	<u>115,121</u>	<u>( 112,132)</u>	<u>73,847</u>	<u>73,847</u>
Governmental activities long-term liabilities	<u>\$ 582,662</u>	<u>\$ 115,121</u>	<u>\$( 146,623)</u>	<u>\$ 551,160</u>	<u>\$ 551,160</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	
2017	\$ <u>477,313</u>	\$ <u>2,208</u>	\$ <u>479,521</u>
Total	\$ <u>477,313</u>	\$ <u>2,208</u>	\$ <u>479,521</u>

## Capital Assets

Primary government capital asset activity for the year ended September 30, 2016, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ <u>273,500</u>	\$ -	\$ -	\$ <u>273,500</u>
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>4,121,350</u>	<u>-</u>	<u>( 214,153)</u>	<u>3,907,197</u>
Total capital assets, being depreciated	<u>5,907,773</u>	<u>-</u>	<u>( 214,153)</u>	<u>5,693,620</u>
Less: accumulated depreciation for:				
Buildings	( 697,837)	( 105,160)	-	( 802,997)
Furniture, fixtures and equipment	<u>( 2,811,201)</u>	<u>( 475,243)</u>	<u>214,153</u>	<u>( 3,072,291)</u>
Total accumulated depreciation	<u>( 3,509,038)</u>	<u>( 580,403)</u>	<u>214,153</u>	<u>( 3,875,288)</u>
Total capital assets being depreciated, net	<u>2,398,735</u>	<u>( 580,403)</u>	<u>-</u>	<u>1,818,332</u>
Governmental activities capital assets, net	<u>\$ 2,672,235</u>	<u>\$( 580,403)</u>	<u>\$ -</u>	<u>\$ 2,091,832</u>



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

<b>Governmental activities:</b>	
General government	\$ 59,448
Housing and urban development	10,451
Transportation	502,930
Emergency communications	4,455
Homeland security	<u>3,119</u>
 Total depreciation expense - governmental activities	 <u><u>\$ 580,403</u></u>

## 5. EMPLOYEES' MONEY PURCHASE PENSION PLAN

The Council has a money purchase pension plan offered through a group annuity contract issued by American Funds. The Plan is an ERISA Section 404(c) plan. Each individual employee exercises control over the investments in their Plan account. The employees can give investment directions for their Plan account choosing from investment alternatives provided by the Plan and approved by the Council's Board of Directors.

Under this Plan, the Council provides an annual contribution of 7% of gross salary to American Funds. The Company then distributes the funds to all employees' accounts based on their direction. The Council's Board of Directors must approve any amendments to the level of contribution.

Vesting is determined by the number of years of service. An employee must have completed at least six (6) years of service before becoming 100% vested. For the year ended September 30, 2016, the Council's gross retirement payroll was \$2,469,000, and the Council contributed \$172,830 to the employees' accounts, which represents 7% of covered payroll after various adjustments.

On January 1, 2017, the ATCOG Board of Directors voted to become a member of TCDRS, thus changing their benefit plan from a defined benefit plan to a defined contribution plan.

## 6. 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, 2016, 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.

# **SUPPLEMENTAL INFORMATION**

**ARK-TEX COUNCIL OF GOVERNMENTS**

**SCHEDULE OF REVENUES AND EXPENDITURES  
BY FUNDING SOURCE**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	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	\$ -	\$ 1,294,711	\$ 11,078
State	88,882	647,131	105,920
Local	59,834	661,871	2,083
Program income	-	78,497	-
Membership dues	-	-	-
Investment earnings	-	-	131
Miscellaneous	-	-	-
Total revenues	<u>148,716</u>	<u>2,682,210</u>	<u>119,212</u>
<b>EXPENDITURES</b>			
General government	-	-	-
Housing and urban development	-	-	-
Aging	-	-	-
Transportation	-	2,766,644	-
Emergency communications	-	-	-
Environmental quality	-	-	118,541
Homeland security	-	-	-
Criminal justice	148,347	-	-
Debt service:			
Principal	-	-	-
Interest	369	316	671
Total expenditures	<u>\$ 148,716</u>	<u>\$ 2,766,960</u>	<u>\$ 119,212</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
\$ 7,272,910	\$ 1,473,390	\$ 162,099	\$ -	\$ -	\$ 10,214,188
-	140,689	-	1,903,647	-	2,886,269
15,186	282,698	3,588	23,175	488,267	1,536,702
-	27,350	-	-	-	105,847
-	-	-	-	60,793	60,793
3,262	-	-	2,741	32,811	38,945
-	-	-	-	23,837	23,837
<u>7,291,358</u>	<u>1,924,127</u>	<u>165,687</u>	<u>1,929,563</u>	<u>605,708</u>	<u>14,866,581</u>
-	-	-	-	259,006	259,006
7,015,629	-	-	-	-	7,015,629
-	1,919,923	-	-	548	1,920,471
-	-	-	-	-	2,766,644
-	-	-	1,924,663	-	1,924,663
-	-	-	-	-	118,541
-	-	164,000	-	-	164,000
-	-	-	-	-	148,347
-	-	-	-	34,491	34,491
<u>3,535</u>	<u>4,204</u>	<u>1,687</u>	<u>4,900</u>	<u>7,080</u>	<u>22,762</u>
<u>\$ 7,019,164</u>	<u>\$ 1,924,127</u>	<u>\$ 165,687</u>	<u>\$ 1,929,563</u>	<u>\$ 301,125</u>	<u>\$ 14,374,554</u>

**ARK-TEX COUNCIL OF GOVERNMENTS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budget</u>	<u>Actual</u>
<b>EMPLOYEE SALARY BENEFITS</b>		
Salaries (release time):		
Vacations	\$ 115,778	\$ 115,121
Holidays	98,353	97,423
Sick leave	88,518	69,224
Liability differential	<u>1,000</u>	<u>-</u>
Total employee salary benefits	<u>303,649</u>	<u>281,768</u>
<b>OTHER EMPLOYEE BENEFITS</b>		
Longevity pay benefit	12,774	11,721
Health/life insurance	487,698	513,560
Payroll taxes	199,018	198,923
Unemployment insurance	2,295	14,945
Workers' compensation insurance	36,621	39,037
Retirement	<u>179,166</u>	<u>172,830</u>
Total other employee benefits	<u>917,572</u>	<u>951,016</u>
Total salary and other employee benefits	<u>1,221,221</u>	<u>1,232,784</u>
<b>PRIOR YEARS OVER ALLOCATION</b>		
Fiscal year 2013 cumulative over allocation	( 10,638)	-
Fiscal year 2014 anticipated under allocation	<u>105,000</u>	<u>-</u>
Total prior years over allocation	<u>94,362</u>	<u>-</u>
Total employee benefits and carryforward	<u>1,315,583</u>	<u>1,232,784</u>
<b>BASIS FOR ALLOCATION</b>		
Gross salaries	2,621,573	2,574,277
Less release time	<u>( 303,649)</u>	<u>( 281,768)</u>
Total chargeable salaries	<u>2,925,222</u>	<u>2,292,509</u>
<b>RATE COMPUTATION</b>		
Total employee benefits	1,315,583	1,232,784
Total chargeable salaries	<u>2,925,222</u>	<u>2,292,509</u>
Computed rate	<u>45.0%</u>	<u>53.8%</u>
<b>ALLOCATION</b>		
Total actual benefits	-	1,232,784
Allocated to grants and local activities	-	( 1,118,347)
Allocated to indirect cost pool	<u>-</u>	<u>( 233,010)</u>
<b>UNDER (OVER) ALLOCATED - CARRY OVER TO 2016 COST PROPOSAL</b>	-	( 118,573)
<b>PRIOR YEAR CUMULATIVE UNDER (OVER) ALLOCATION</b>	<u>-</u>	<u>180,970</u>
<b>TOTAL CUMULATIVE UNDER (OVER) ALLOCATION</b>	<u>\$ -</u>	<u>\$ 62,397</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, 2016**

	<u>Budget</u>	<u>Actual</u>
<b>INDIRECT COSTS</b>		
Salaries	\$ 407,263	\$ 410,228
Benefits	231,150	233,010
Total salaries and benefits	<u>638,413</u>	<u>643,238</u>
Audit	40,000	36,150
Travel	21,000	27,942
Office rental	33,298	26,900
Office supplies	9,600	8,276
Copy services	2,000	1,169
Telephone	12,014	10,777
Postage	5,350	5,537
Other	88,801	53,177
Fiscal year 2014 cumulative under allocation	( 191,414)	-
Anticipated fiscal year 2015 cumulative over allocation	( 50,000)	-
Less: Earned acctng fees	( 21,005)	-
Less: Earned administrative fees	( 65,000)	-
Total indirect costs	<u>523,057</u>	<u>813,166</u>
<b>BASIS FOR ALLOCATION</b>		
Direct salaries	2,517,959	1,882,281
Direct benefits	1,084,433	999,774
Total direct personnel costs	<u>3,602,392</u>	<u>2,882,055</u>
<b>INDIRECT COST RATE COMPUTATION</b>		
Total indirect costs	523,057	813,166
Total direct personnel costs	<u>3,602,392</u>	<u>2,882,055</u>
Computed rate	<u>14.5%</u>	<u>28.2%</u>
<b>ALLOCATION</b>		
Total actual indirect costs	-	813,166
Indirect costs allocated	<u>-</u>	<u>( 537,936)</u>
<b>UNDER (OVER) ALLOCATED - CARRY OVER TO 2015 COST PROPOSAL</b>	-	275,230
<b>PRIOR YEAR CUMULATIVE UNDER (OVER) ALLOCATION</b>	<u>-</u>	<u>( 163,921)</u>
<b>TOTAL CUMULATIVE UNDER (OVER) ALLOCATION</b>	<u>\$ -</u>	<u>\$ 111,309</u>

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# **SINGLE AUDIT**

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CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Executive Committee  
Ark-Tex Council of Governments  
Texarkans, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the Ark-Tex Council of Governments (the "Council") as of and for the year ended September 30, 2016, 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 28, 2017.

***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

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

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

Waco, Texas  
June 28, 2017



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

**INDEPENDENT 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**

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

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

We have audited the Council’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* and the State of Texas *Uniform Grant Management Standards* (“UGMS”), issued by the Governor’s Office of Budget and Planning, that could have a direct and material effect on each of the County’s major federal and state programs for the year ended September 30, 2016. The Council’s major federal and state programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

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

***Auditors’ Responsibility***

Our responsibility is to express an opinion on compliance for each of The Council’s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and UGMS. Those standards, the Uniform Guidance, and UGMS require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

**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 as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and UGMS, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Council's internal control over compliance.

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

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

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

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

Waco, Texas  
June 28, 2017

**ARK-TEX COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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	C715212	\$ 3,842	\$ -
Community and Economic Development Assistance Funds	14.228	C716212	4,581	-
Community and Economic Development Assistance Funds	14.228	C717212	<u>389</u>	<u>-</u>
Total Passed through the Texas Department of Agriculture			<u>8,812</u>	<u>-</u>
Direct Program:				
Section 8 Housing Choice Vouchers	14.871	TX499	<u>7,264,098</u>	<u>-</u>
Total Direct Program			<u>7,264,098</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>7,272,910</u>	<u>-</u>
<u>U. S. Department of Transportation</u>				
Passed through Texas Department of Transportation:				
Section 5311 Rural Transportation - RPT 1601	20.509	51419F218	34,796	-
Section 5311 Rural Transportation	20.509	51419F7088	677,900	-
Section 5311 Rural Transportation	20.509	TX-18-X038	83,229	-
Section 5311 Rural Transportation	20.509	TX-18-X039	<u>285,363</u>	<u>-</u>
Subtotal 20.509			<u>1,081,288</u>	<u>-</u>
Section 5310 Transportation for Elderly and Disabled	20.513	51519F7076	80,579	-
Section 5316 Job Access Reverse Commute	20.516	51319F7284	<u>57,283</u>	<u>-</u>
Subtotal Transit Services Programs Cluster			<u>137,862</u>	<u>-</u>
Section 5304 Regional Planning & Planning	20.515	51419F218	<u>43,930</u>	<u>-</u>
Subtotal 20.515			<u>43,930</u>	<u>-</u>
Section 5339 Federal Bus Facilities Program	20.526	51419F218	<u>31,631</u>	<u>-</u>
Subtotal 20.526			<u>31,631</u>	<u>-</u>
Total Passed through Texas Department of Transportation			<u>1,294,711</u>	<u>-</u>
Total U. S. Department of Transportation			<u>1,294,711</u>	<u>-</u>
<u>Environmental Protection Agency</u>				
Passed through Texas Commission on Environmental Quality:				
Water Quality	66.454	582-16-60222	<u>11,078</u>	<u>-</u>
Total Passed through Texas Commission on Environmental Quality			<u>11,078</u>	<u>-</u>
Total Environmental Protection Agency			<u>11,078</u>	<u>-</u>

**ARK-TEX COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**(Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures	Pass-through Expenditures
<u>U. S. Department of Health and Human Services</u>				
Passed through Texas Department of Aging and Disability Services:				
Title VII-EAP	93.041	539-11-0007-00001	\$ 3,875	\$ -
Subtotal			<u>3,875</u>	<u>-</u>
Title III-D Evidence Based - Intervention	93.043	539-11-0007-00001	14,372	-
Subtotal			<u>14,372</u>	<u>-</u>
Title III-B	93.044	539-11-0007-00001	362,371	-
PY Title III-B	93.044	539-11-0007-00001	5,984	-
Title III-C1	93.045	539-11-0007-00001	388,216	-
PY Title III-C1	93.045	539-11-0007-00001	15,545	-
Title III-C2	93.045	539-11-0007-00001	218,192	-
PY Title III-C2	93.045	539-11-0007-00001	23,992	-
NSIP	93.053	539-11-0007-00001	221,325	-
Subtotal Aging Cluster			<u>1,235,625</u>	<u>-</u>
Title III-E	93.052	539-11-0007-00001	128,204	-
PY Title III-E	93.052	539-11-0007-00001	2,774	-
Subtotal			<u>130,978</u>	<u>-</u>
CMS Basic (04/01/14 - 03/31/15)	93.779	539-11-0007-00001	28,941	-
CMS Basic (04/01/15 - 03/31/16)	93.324	539-11-0007-00001	36,999	-
Subtotal			<u>65,940</u>	<u>-</u>
PY OMB MFPD	93.791	539-11-0007-00001	22,600	-
Subtotal			<u>22,600</u>	<u>-</u>
Total Passed through Texas Department of Aging and Disability Services			<u>1,473,390</u>	<u>-</u>
Total U. S. Department of Health and Human Services			<u>1,473,390</u>	<u>-</u>



## ARK-TEX COUNCIL OF GOVERNMENTS

### SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures	Pass-through Expenditures
<u>U. S. Department of Homeland Security</u>				
Passed through the Texas Department of Public Safety				
Hazard Mitigation Grant	97.047	PDMC-PL-06-TX-2013-003	\$ 23,827	\$ -
Hazard Mitigation Grant	97.047	PDMC-PL-06-TX-2013-003	10,764	-
Subtotal			<u>34,591</u>	<u>-</u>
Homeland Security Grant Program - SHSP 2014	97.067	EMW-2014-SS-00029	27,970	-
Homeland Security Grant Program - SHSP M&A 2014	97.067	EMW-2014-SS-00029	12,616	-
Homeland Security Grant Program - SHSP 2015	97.067	EMW-2014-SS-00029	61,512	-
Homeland Security Grant Program - SHSP M&A 2015	97.067	EMW-2014-SS-00029	25,410	-
Subtotal Homeland Security Grant Program			<u>127,508</u>	<u>-</u>
Total Passed through Texas Department of Public Safety			<u>162,099</u>	<u>-</u>
Total U. S. Department of Homeland Security			<u>162,099</u>	<u>-</u>
Total Federal Awards - Primary Government			<u>10,214,188</u>	<u>-</u>
 <b>FEDERAL AWARDS - DISCRETELY PRESENTED COMPONENT UNITS</b>				
<u>U. S. Department of Commerce, Economic Development Administration</u>				
Direct Program:				
Economic Development Support for Planning Organizations - NETEI	11.302	08-83-05014	60,000	-
Regional Food Systems Cooperative- NETEDD	11.302	08-86-05064	1,519	-
Subtotal Economic Development Support Program			<u>61,519</u>	<u>-</u>
Revolving Loan Fund - NETEDD	11.307	08-39-02502	834,857	-
Total Direct Program			<u>896,376</u>	<u>-</u>
Total U. S. Department of Commerce, Economic Development Administration			<u>896,376</u>	<u>-</u>
<u>Small Business Administration</u>				
Direct:				
504 Certified Development Loans - ATRDC	59.041	N/A	54,197	-
Total Direct			<u>54,197</u>	<u>-</u>
Total Small Business Administration			<u>54,197</u>	<u>-</u>
Total Federal Awards - Discretely Presented Component Units			<u>950,573</u>	<u>-</u>
Total Federal Awards - Financial Reporting Entity			<u>\$ 11,164,761</u>	<u>\$ -</u>

**ARK-TEX COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**(Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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	539-11-0005-00001	\$ 37,500	\$ -
OMB ALF Services	539-11-0005-00001	36,081	-
State General Revenue - Other	539-11-0005-00001	<u>67,108</u>	<u>-</u>
Total Texas Department of Aging and Disability Services		<u>140,689</u>	<u>-</u>
<u>Office of the Governor, Criminal Justice Division</u>			
Purchase of Juvenile Justice Alternatives	14266-17	<u>42,010</u>	<u>-</u>
Subtotal Purchase of Juvenile Justice Alternatives		<u>42,010</u>	<u>-</u>
Regional Law Enforcement Training	14264-16	<u>46,872</u>	<u>-</u>
Subtotal Regional Law Enforcement Training		<u>46,872</u>	<u>-</u>
Total Office of the Governor, Criminal Justice Division		<u>88,882</u>	<u>-</u>
<u>Texas Department of Transportation</u>			
Rural Transportation	51319F7002	12,030	-
Rural Transportation	51319F7002	559,948	-
Rural Transportation	51519F7006	<u>75,153</u>	<u>-</u>
Total Texas Department of Transportation		<u>647,131</u>	<u>-</u>
<u>Texas Commission on Environmental Quality</u>			
Regional Solid Waste	582-16-60645	<u>105,920</u>	<u>-</u>
Total Texas Commission on Environmental Quality		<u>105,920</u>	<u>-</u>
<u>Commission on State Emergency Communications</u>			
911 Emergency Communications	2015	455,022	-
911 Emergency Communications	2016	1,375,107	-
911 Emergency Communications	2017	<u>73,518</u>	<u>-</u>
Total Commission on State Emergency Communications		<u>1,903,647</u>	<u>-</u>
Total State Awards		<u>\$ 2,886,269</u>	<u>\$ -</u>

**ARK-TEX COUNCIL OF GOVERNMENTS**

**NOTES TO SCHEDULE OF  
EXPENDITURES OF FEDERAL AND STATE AWARDS**

**SEPTEMBER 30, 2016**

**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 09/30/2016	\$ 881,393
Cash and investment balance at 09/30/2016	222,847
Administrative costs during the fiscal year	8,902
Unpaid principal of loans written off during the fiscal year	<u>-</u>
Total EDA Revolving Loan Fund Expenditures	1,113,142
Federal Participation Rate	<u>75%</u>
Total Federal Share of EDA Revolving Loan Fund Expenditures	<u>\$ 834,857</u>

**3. 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, 2016**

**Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal and State Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported  
in accordance with Section 510(a) of Uniform Guidance or  
State of Texas Uniform Grant Management Standards?

No

Identification of major programs:

CFDA Number(s)	Name of Federal/State Program or Cluster:
14.871	Section 8 Housing Choice Vouchers
20.509, State	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? No

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, 2016**

None

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