



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

**FOR THE YEAR ENDED
SEPTEMBER 30, 2017**

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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, 2017, 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.

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 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.

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, 2017, 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 pension schedules 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 26, 2018, 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 26, 2018

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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, 2017.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of Ark-Tex Council of Governments exceeded its liabilities and deferred inflows as of September 30, 2017, by \$6,037,645 (net position).
- The Council's total net position decreased by \$350,355.
- As of the close of the current fiscal year, Ark-Tex Council of Governments' governmental funds reported combined ending fund balances of \$5,147,839, an increase of \$300,511 in comparison with the prior year.
- As of September 30, 2017, unassigned fund balance for the General Fund was \$2,961,272.

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 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,037,645 as of September 30, 2017.

A portion of the Council’s net position \$971,498 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 \$346,051 is restricted for federal and state programs. The remaining portion of the Council’s net position \$4,720,096 is unrestricted.

GOVERNMENT-WIDE NET POSITION

	Governmental Activities	
	2017	2016
Current assets	\$ 6,120,260	\$ 5,797,185
Capital assets	<u>1,530,341</u>	<u>2,091,832</u>
Total assets	<u>7,650,601</u>	<u>7,889,017</u>
Long-term liabilities	640,535	551,160
Other liabilities	<u>972,421</u>	<u>949,857</u>
Total liabilities	<u>1,612,956</u>	<u>1,501,017</u>
Net position:		
Net investment in capital assets	971,498	1,614,519
Restricted for federal and state programs	346,051	160,772
Unrestricted	<u>4,720,096</u>	<u>4,612,709</u>
Total net position	<u>\$ 6,037,645</u>	<u>\$ 6,388,000</u>

The following table provides a summary of the Council's operations for the year ended September 30, 2017. Governmental activities decreased the Council's net position by \$350,355.

GOVERNMENT-WIDE CHANGES IN NET POSITION

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 285,563	\$ 264,835
Operating grants and contributions	16,232,303	14,545,098
General revenues:		
Miscellaneous income	115,168	23,837
Investment earnings	43,432	32,811
Total revenues	16,676,466	14,866,581
Expenses:		
General government	767,909	321,443
Housing and urban development	7,079,836	7,026,080
Aging	1,907,477	1,920,471
Transportation	3,983,767	3,269,574
Emergency communications	2,735,355	1,929,118
Environmental quality	145,698	118,541
Homeland security	163,359	167,119
Criminal justice	218,131	148,347
Interest on long-term debt	25,289	22,762
Total expenses	17,026,821	14,923,455
Change in net position	(350,355)	(56,874)
Net position, beginning	6,388,000	6,444,874
Net position, ending	\$ 6,037,645	\$ 6,388,000

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 increased \$1,687,205 (12%). The largest increases in grant revenue were in the Commission on State Emergency Communications (\$810,853), the Governor's Office of Criminal Justice (\$23,778) and the Texas Department of Transportation (\$610,227). The largest decrease in grant revenue was in the Housing and Urban Development program (\$295,425). Total expenses increased by \$2,116,815 (15%).

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 \$5,147,839. Approximately 58% of this total amount \$2,961,272 constitutes unassigned fund balance. The remainder of the fund balance \$2,186,567 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, 2017, amounts to \$1,530,341 (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>2017</u>	<u>2016</u>
Land	\$ 273,500	\$ 273,500
Buildings	1,786,423	1,786,423
Equipment	3,882,122	3,907,197
Less: accumulated depreciation	<u>(4,411,704)</u>	<u>(3,875,288)</u>
Total capital assets	<u>\$ 1,530,341</u>	<u>\$ 2,091,832</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 \$558,843 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

**BASIC
FINANCIAL STATEMENTS**

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ARK-TEX COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	Primary Government	Component Units	
	Governmental Activities	NETEDD	ATRDC
ASSETS			
Cash and investments	\$ 3,573,691	\$ 804,151	\$ 56,468
Receivables:			
Grantors	994,866	-	-
Notes receivable	1,101,458	478,970	-
Other	21,683	-	-
Prepaid items	7,896	-	-
Under allocated indirect costs and employee benefits	(43,654)	-	-
Due from component units	253,575	-	-
Due from Texarkana Urban Transit District	210,745	-	-
Capital assets:			
Land	273,500	-	-
Buildings	1,786,423	-	-
Equipment	3,882,122	-	-
Less: accumulated depreciation	(4,411,704)	-	-
Total capital assets	<u>1,530,341</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>7,650,601</u>	 <u>1,283,121</u>	 <u>56,468</u>
LIABILITIES			
Accounts payable	289,707	-	-
Due to primary government	-	253,019	556
Accrued liabilities	176,372	-	-
Unearned revenue	506,342	-	-
Due within one year:			
Note payable	43,110	-	-
Compensated absences	81,692	-	-
Due in more than one year:			
Note payable	515,733	-	-
Total liabilities	<u>1,612,956</u>	<u>253,019</u>	<u>556</u>
NET POSITION			
Net investment in capital assets	971,498	-	-
Restricted for federal and state programs	346,051	1,030,102	-
Unrestricted	4,720,096	-	55,912
 Total net position	 <u>\$ 6,037,645</u>	 <u>\$ 1,030,102</u>	 <u>\$ 55,912</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, 2017

						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
Primary government								
Governmental activities:								
General government	\$ 752,297	\$ 15,612	\$ 767,909	\$ 60,994	\$ 768,561	\$ 61,646	\$ -	\$ -
Housing and urban development	6,973,994	105,842	7,079,836	9,673	6,985,404	(84,759)	-	-
Aging	1,818,525	88,952	1,907,477	62,541	1,813,499	(31,437)	-	-
Transportation	3,621,926	361,841	3,983,767	76,969	3,489,397	(417,401)	-	-
Emergency communications	2,655,408	79,947	2,735,355	14,438	2,727,467	6,550	-	-
Environmental quality	131,136	14,562	145,698	-	146,641	943	-	-
Homeland security	142,576	20,783	163,359	14,779	128,840	(19,740)	-	-
Criminal justice	202,710	15,421	218,131	46,169	172,494	532	-	-
Indirect costs	732,554	(732,554)	-	-	-	-	-	-
Interest on long-term debt	25,289	-	25,289	-	-	(25,289)	-	-
Total governmental activities	<u>17,056,415</u>	<u>(29,594)</u>	<u>17,026,821</u>	<u>285,563</u>	<u>16,232,303</u>	<u>(508,955)</u>	<u>-</u>	<u>-</u>
Component units								
NETEDD	76,260	16,369	92,629	23,627	76,195	-	7,193	-
ATRDC	<u>85,185</u>	<u>13,225</u>	<u>98,410</u>	<u>152,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,627</u>
Total component units	<u>\$ 161,445</u>	<u>\$ 29,594</u>	<u>\$ 191,039</u>	<u>\$ 175,664</u>	<u>\$ 76,195</u>	<u>-</u>	<u>7,193</u>	<u>53,627</u>
General revenues:								
Unrestricted investment earnings						43,432	3,574	393
Miscellaneous						<u>115,168</u>	<u>-</u>	<u>-</u>
Total general revenues						<u>158,600</u>	<u>3,574</u>	<u>393</u>
Change in net position						(350,355)	10,767	54,020
Net position - beginning						<u>6,388,000</u>	<u>1,019,335</u>	<u>1,892</u>
Net position - ending						<u>\$ 6,037,645</u>	<u>\$ 1,030,102</u>	<u>\$ 55,912</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, 2017

	<u>General</u>	<u>Commission on State Emergency Communications</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 2,601,476	\$ 972,215	\$ 3,573,691
Receivables:			
Grantors	994,866	-	994,866
Notes	1,101,458	-	1,101,458
Other	21,683	-	21,683
Prepaid items	7,896	-	7,896
Due from other funds	510,583	-	510,583
Under (over) allocated indirect costs and employee benefits	(43,654)	-	(43,654)
Due from component unit	253,575	-	253,575
Due from Texarkana Urban Transit District	<u>210,745</u>	<u>-</u>	<u>210,745</u>
Total assets	<u>5,658,628</u>	<u>972,215</u>	<u>6,630,843</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	289,707	-	289,707
Accrued liabilities	176,372	-	176,372
Due to other funds	-	510,583	510,583
Unearned revenue	<u>44,710</u>	<u>461,632</u>	<u>506,342</u>
Total liabilities	<u>510,789</u>	<u>972,215</u>	<u>1,483,004</u>
Fund balances:			
Nonspendable	7,896	-	7,896
Restricted for:			
Housing and Urban Development	328,682	-	328,682
Transportation	17,369	-	17,369
Committed for Chapman Revolving Loan Fund	1,031,350	-	1,031,350
Assigned for:			
ETRAP/RBEG Revolving Loan Fund	749,841	-	749,841
Criminal Justice	51,429	-	51,429
Unassigned	<u>2,961,272</u>	<u>-</u>	<u>2,961,272</u>
Total fund balances	<u>5,147,839</u>	<u>-</u>	<u>5,147,839</u>
Total liabilities and fund balances	\$ <u>5,658,628</u>	\$ <u>972,215</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.

1,530,341

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

(640,535)

Net position of governmental activities

\$ 6,037,645

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, 2017

	<u>General</u>	<u>Commission on State Emergency Communications</u>	<u>Total Governmental Funds</u>
REVENUES			
Federal	\$ 10,558,711	\$ -	\$ 10,558,711
State	1,016,450	2,723,237	3,739,687
Local	1,992,345	14,438	2,006,783
Program income	139,510	-	139,510
Membership dues	60,994	-	60,994
Investment income	51,383	4,230	55,613
Miscellaneous	115,168	-	115,168
Total revenues	<u>13,934,561</u>	<u>2,741,905</u>	<u>16,676,466</u>
EXPENDITURES			
Current:			
General government	719,760	-	719,760
Housing and urban development	7,070,521	-	7,070,521
Aging	1,907,477	-	1,907,477
Transportation	3,487,609	-	3,487,609
Emergency communications	-	2,741,905	2,741,905
Environmental quality	145,698	-	145,698
Homeland security	141,095	-	141,095
Criminal justice	218,131	-	218,131
Debt service:			
Principal	33,884	-	33,884
Interest	25,289	-	25,289
Total expenditures	<u>13,749,464</u>	<u>2,741,905</u>	<u>16,491,369</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	185,097	-	185,097
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of loan	115,414	-	115,414
Total other financing sources (uses)	<u>115,414</u>	<u>-</u>	<u>115,414</u>
NET CHANGE IN FUND BALANCES	<u>300,511</u>	<u>-</u>	<u>300,511</u>
FUND BALANCE, BEGINNING	<u>4,847,328</u>	<u>-</u>	<u>4,847,328</u>
FUND BALANCE, ENDING	<u>\$ 5,147,839</u>	<u>\$ -</u>	<u>\$ 5,147,839</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, 2017

Net change in fund balances - total governmental funds:	\$	185,097
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.	(561,491)
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		33,884
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>7,845</u>)
Change in net position of governmental activities	\$	<u><u>(350,355)</u></u>

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ARK-TEX COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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, 2017, was 61.6% and the actual rate was 49.8%.

The cumulative difference between actual and allocated employee benefits at September 30, 2017, was an over-allocation of \$299,570. 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, 2017, was 21.1% and the actual rate was 28.7%. The difference resulted in a cumulative under-allocation of indirect costs at September 30, 2017, of \$255,916. 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, 2017.

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, 2017.

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 \$(561,491) difference are as follows:

Capital outlay	\$ 8,135
Depreciation expense	<u>(569,626)</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>\$(561,491)</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, 2017, 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, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Note payable	\$ 477,313	\$ 115,414	\$(33,884)	\$ 558,843	\$ 43,110
Compensated absences	<u>73,847</u>	<u>124,317</u>	<u>(116,472)</u>	<u>81,692</u>	<u>81,692</u>
Governmental activities long-term liabilities	<u>\$ 582,662</u>	<u>\$ 239,731</u>	<u>\$(150,356)</u>	<u>\$ 640,535</u>	<u>\$ 124,802</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	
2018	\$ 43,110	\$ 26,234	\$ 69,344
2019	41,699	22,310	64,009
2020	43,615	20,395	64,010
2021	45,619	18,391	64,010
2022	47,714	16,295	64,009
2023-2027	273,537	46,511	320,048
2028-2032	<u>63,549</u>	<u>1,537</u>	<u>65,086</u>
Total	<u>\$ 558,843</u>	<u>\$ 151,673</u>	<u>\$ 710,516</u>

Capital Assets

Primary government capital asset activity for the year ended September 30, 2017, 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>3,907,197</u>	<u>8,135</u>	<u>(33,210)</u>	<u>3,882,122</u>
Total capital assets, being depreciated	<u>5,693,620</u>	<u>8,135</u>	<u>(33,210)</u>	<u>5,668,545</u>
Less: accumulated depreciation for:				
Buildings	(802,997)	(105,160)	-	(908,157)
Furniture, fixtures and equipment	<u>(3,072,291)</u>	<u>(464,466)</u>	<u>33,210</u>	<u>(3,503,547)</u>
Total accumulated depreciation	<u>(3,875,288)</u>	<u>(569,626)</u>	<u>33,210</u>	<u>(4,411,704)</u>
Total capital assets being depreciated, net	<u>1,818,332</u>	<u>(561,491)</u>	<u>-</u>	<u>1,256,841</u>
Governmental activities capital assets, net	<u>\$ 2,091,832</u>	<u>\$ (561,491)</u>	<u>\$ -</u>	<u>\$ 1,530,341</u>

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

Governmental activities:	
General government	\$ 40,304
Housing and urban development	9,315
Transportation	496,158
Emergency communications	1,585
Homeland security	<u>22,264</u>
Total depreciation expense - governmental activities	<u>\$ 569,626</u>

5. EMPLOYEES' MONEY PURCHASE PENSION PLAN

The Council had a money purchase pension plan offered through a group annuity contract issued by American Funds. The Plan is an ERISA Section 404(c) plan. Part-time employees working less than 20 hours per week were not eligible for inclusion in the plan. Each individual employee exercised control over the investments in their Plan account. The employees could 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 provided an annual contribution of 7% of gross salary to American Funds. The Company then distributed the funds to all employees' accounts based on their direction. The Council's Board of Directors had to approve any amendments to the level of contribution.

Vesting was 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, 2017, the Council's gross retirement payroll was \$654,751, and the Council contributed \$45,833 to the employees' accounts, which represents 7% of covered payroll after various adjustments.

On September 29, 2016, the ATCOG Board of Directors voted to become a member of TCDRS, effective January 1, 2017, thus changing their benefit plan from a money purchase pension plan to a defined benefit plan.

6. DEFINED BENEFIT PLAN

The Council began participation in the Texas County & District Retirement System (TCDRS) as of January 1, 2017, and therefore did not have any participating employees as of the TCDRS measurement date, December 31, 2016. A description of the pension plan pursuant to Paragraph 40 of GASB Statement No. 68 is as follows:

- a. The Council participates in TCDRS, which is a statewide, agent multiple-employer, public employee retirement system.
- b. A brief description of benefit terms:
 1. 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.

2. The plan provides for retirement, disability and survivor benefits.
 3. TCDRS is a savings-based plan. For the Council plan, 4% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest per year on beginning of year balances. At retirement, the account is matched at an employer set percentage(s) (current match is 100%) and is then converted to a lifetime annuity.
 4. There are no automatic COLAs. Each year the Council may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.
 5. Benefit terms are established by the TCDRS Act. They may be amended as of January 1 each year, but must remain in conformity with the Act.
- c. As of the measurement date (December 31, 2016), the Council had no employees covered in TCDRS.
 - d. The Council's contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The Council's contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The employee contribution rates are set by the Council and are currently 4%. The actuarially determined contribution rate for 2017 was 2.39%. Contributions to the pension plan from the Council were \$83,715 for the fiscal year ended September 30, 2017.
 - e. The most recent comprehensive annual financial report for TCDRS can be found at the following link, www.tcdrs.org.

7. 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, 2017, 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

ARK-TEX COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Governor's Office of Criminal Justice	Texas Department of Transportation	Texas Commission on Environmental Quality
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Federal	\$ 17,955	\$ 1,952,237	\$ 12,862
State	154,539	599,832	133,424
Local	46,169	937,328	323
Program income	-	76,969	-
Membership dues	-	-	-
Investment earnings	-	-	32
Miscellaneous	-	-	-
Total revenues	<u>218,663</u>	<u>3,566,366</u>	<u>146,641</u>
EXPENDITURES			
General government	-	-	-
Housing and urban development	-	-	-
Aging	-	-	-
Transportation	-	3,487,609	-
Emergency communications	-	-	-
Environmental quality	-	-	145,698
Homeland security	-	-	-
Criminal justice	218,131	-	-
Debt service:			
Principal	-	-	-
Interest	532	442	943
Total expenditures	<u>\$ 218,663</u>	<u>\$ 3,488,051</u>	<u>\$ 146,641</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
\$ 6,977,485	\$ 1,494,390	\$ 103,782	\$ -	\$ -	\$ 10,558,711
-	103,597	25,058	2,723,237	-	3,739,687
9,673	215,512	14,779	14,438	768,561	2,006,783
-	62,541	-	-	-	139,510
-	-	-	-	60,994	60,994
7,919	-	-	4,230	43,432	55,613
-	-	-	-	115,168	115,168
<u>6,995,077</u>	<u>1,876,040</u>	<u>143,619</u>	<u>2,741,905</u>	<u>988,155</u>	<u>16,676,466</u>
-	-	-	-	719,760	719,760
7,070,521	-	-	-	-	7,070,521
-	1,870,488	-	-	36,989	1,907,477
-	-	-	-	-	3,487,609
-	-	-	2,741,905	-	2,741,905
-	-	-	-	-	145,698
-	-	141,095	-	-	141,095
-	-	-	-	-	218,131
-	-	-	-	33,884	33,884
<u>5,036</u>	<u>5,552</u>	<u>2,524</u>	<u>-</u>	<u>10,260</u>	<u>25,289</u>
<u>\$ 7,075,557</u>	<u>\$ 1,876,040</u>	<u>\$ 143,619</u>	<u>\$ 2,741,905</u>	<u>\$ 800,893</u>	<u>\$ 16,491,369</u>

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ARK-TEX COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budget</u>	<u>Actual</u>
EMPLOYEE SALARY BENEFITS		
Salaries (release time):		
Vacations	\$ 128,051	\$ 124,317
Holidays	111,822	105,493
Sick leave	100,640	70,240
Liability differential	<u>1,000</u>	<u>-</u>
Total employee salary benefits	<u>341,513</u>	<u>300,050</u>
OTHER EMPLOYEE BENEFITS		
Longevity pay benefit	11,751	11,484
Health/life insurance	585,813	574,255
Payroll taxes	234,398	222,225
Unemployment insurance	17,955	4,873
Workers' compensation insurance	48,809	47,727
Retirement	<u>144,487</u>	<u>126,127</u>
Total other employee benefits	<u>1,043,213</u>	<u>986,691</u>
Total salary and other employee benefits	<u>1,384,726</u>	<u>1,286,741</u>
PRIOR YEARS OVER ALLOCATION		
Fiscal year 2015 cumulative under allocation	180,970	-
Fiscal year 2016 anticipated under allocation	<u>125,000</u>	<u>-</u>
Total prior years under allocation	<u>305,970</u>	<u>-</u>
Total employee benefits and carryforward	<u>1,690,696</u>	<u>1,286,741</u>
BASIS FOR ALLOCATION		
Gross salaries	3,084,669	2,884,117
Less release time	<u>341,153</u>	<u>300,050</u>
Total chargeable salaries	<u>2,743,516</u>	<u>2,584,067</u>
RATE COMPUTATION		
Total employee benefits	1,690,696	1,286,741
Total chargeable salaries	<u>2,743,516</u>	<u>2,584,067</u>
Computed rate	<u>61.6%</u>	<u>49.8%</u>
ALLOCATION		
Total actual benefits	-	1,286,741
Allocated to grants and local activities	-	(1,386,154)
Allocated to indirect cost pool	<u>-</u>	<u>(262,554)</u>
UNDER (OVER) ALLOCATED - CARRY OVER TO 2017 COST PROPOSAL	-	(361,967)
PRIOR YEAR CUMULATIVE UNDER (OVER) ALLOCATION	<u>-</u>	<u>62,397</u>
TOTAL CUMULATIVE UNDER (OVER) ALLOCATION	<u>\$ -</u>	<u>\$(299,570)</u>

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ARK-TEX COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budget</u>	<u>Actual</u>
INDIRECT COSTS		
Salaries	\$ 457,538	\$ 426,222
Benefits	281,995	262,554
Total salaries and benefits	<u>739,533</u>	<u>688,776</u>
Audit	38,000	36,550
Travel	21,300	39,044
Office rental	28,798	26,938
Office supplies	10,300	7,215
Copy services	1,170	1,449
Telephone	11,585	11,971
Postage	5,650	5,646
Other	71,275	96,305
Fiscal year 2015 cumulative under allocation	(163,921)	-
Anticipated fiscal year 2016 cumulative over allocation	75,000	-
Less: Earned acctng fees	(23,400)	-
Less: Earned administrative fees	(36,000)	(863)
Total indirect costs	<u>779,290</u>	<u>913,031</u>
BASIS FOR ALLOCATION		
Direct salaries	2,285,978	2,157,845
Direct benefits	1,408,701	1,024,187
Total direct personnel costs	<u>3,694,679</u>	<u>3,182,032</u>
INDIRECT COST RATE COMPUTATION		
Total indirect costs	779,290	913,031
Total direct personnel costs	<u>3,694,679</u>	<u>3,182,032</u>
Computed rate	<u>21.1%</u>	<u>28.7%</u>
ALLOCATION		
Total actual indirect costs	-	913,031
Indirect costs allocated	<u>-</u>	<u>(768,424)</u>
UNDER (OVER) ALLOCATED - CARRY OVER TO 2017 COST PROPOSAL	-	144,607
PRIOR YEAR CUMULATIVE UNDER (OVER) ALLOCATION	<u>-</u>	<u>111,309</u>
TOTAL CUMULATIVE UNDER (OVER) ALLOCATION	<u>\$ -</u>	<u>\$ 255,916</u>

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SINGLE AUDIT

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**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***

To the 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, 2017, 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 26, 2018.

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 26, 2018



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 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 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, 2017. 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, 2017.

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 26, 2018

ARK-TEX COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures	Pass-through Expenditures
FEDERAL AWARDS - PRIMARY GOVERNMENT				
<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	C716212	\$ 4,812	\$ -
Community and Economic Development Assistance Funds	14.228	C717212	<u>1,075</u>	<u>-</u>
Total Passed through the Texas Department of Agriculture			<u>5,887</u>	<u>-</u>
Direct Program:				
Section 8 Housing Choice Vouchers	14.871	TX499	<u>6,971,598</u>	<u>-</u>
Total Direct Program			<u>6,971,598</u>	<u>-</u>
Total U. S. Department of Housing and Urban Development			<u>6,977,485</u>	<u>-</u>
<u>U. S. Department of Transportation</u>				
Passed through Texas Department of Transportation:				
Metropolitan Transportation Planning	20.505	51008011917	<u>12,548</u>	<u>-</u>
Subtotal 20.505			<u>12,548</u>	<u>-</u>
Section 5311 Rural Transportation - RPT 1601	20.509	51018011916	65,204	-
Section 5311 Rural Transportation	20.509	51018021917	3,845	-
Section 5311 Rural Transportation	20.509	51118011917	<u>1,627,626</u>	<u>-</u>
Subtotal 20.509			<u>1,696,675</u>	<u>-</u>
Section 5310 Transportation for Elderly and Disabled	20.513	51016011917	<u>127,055</u>	<u>-</u>
Subtotal Transit Services Programs Cluster			<u>127,055</u>	<u>-</u>
Section 5304 Regional Planning & Planning	20.515	51R08011917	<u>51,902</u>	<u>-</u>
Subtotal 20.515			<u>51,902</u>	<u>-</u>
Section 5339 Federal Bus Facilities Program	20.526	51003011917	<u>64,057</u>	<u>-</u>
Subtotal 20.526			<u>64,057</u>	<u>-</u>
Total Passed through Texas Department of Transportation			<u>1,952,237</u>	<u>-</u>
Total U. S. Department of Transportation			<u>1,952,237</u>	<u>-</u>
<u>Environmental Protection Agency</u>				
Passed through Texas Commission on Environmental Quality:				
Water Quality	66.454	582-17-70165	11,998	-
Water Quality	66.454	582-18-80222	<u>864</u>	<u>-</u>
Total Passed through Texas Commission on Environmental Quality			<u>12,862</u>	<u>-</u>
Total Environmental Protection Agency			<u>12,862</u>	<u>-</u>

ARK-TEX COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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	\$ 3,914	\$ -
Subtotal			<u>3,914</u>	<u>-</u>
Title VII-OAG	93.042	539-11-0007-00001	21,626	-
Subtotal			<u>21,626</u>	<u>-</u>
Title III-D Evidence Based - Intervention	93.043	539-11-0007-00001	15,796	-
PY Title III-D Evidence Based - Intervention	93.043	539-11-0007-00001	2,210	-
Subtotal			<u>18,006</u>	<u>-</u>
Title III-B	93.044	539-11-0007-00001	338,962	-
PY Title III-B	93.044	539-11-0007-00001	10,185	-
Title III-C1	93.045	539-11-0007-00001	412,804	-
PY Title III-C1	93.045	539-11-0007-00001	7,777	-
Title III-C2	93.045	539-11-0007-00001	213,193	-
PY Title III-C2	93.045	539-11-0007-00001	19,078	-
NSIP	93.053	539-11-0007-00001	211,355	-
Subtotal Aging Cluster			<u>1,213,354</u>	<u>-</u>
Title III-E	93.052	539-11-0007-00001	130,218	-
PY Title III-E	93.052	539-11-0007-00001	30	-
Subtotal			<u>130,248</u>	<u>-</u>
MIPPA Priority Area 2	93.071	539-11-0007-00001	18,463	-
PY MIPPA Priority Area 2	93.071	539-11-0007-00001	89	-
Subtotal			<u>18,552</u>	<u>-</u>
CMS Basic (04/01/16 - 03/31/17)	93.324	539-11-0007-00001	30,869	-
CMS Basic (04/01/17 - 03/31/18)	93.324	539-11-0007-00001	22,252	-
Subtotal			<u>53,121</u>	<u>-</u>
PY OMB MFPD	93.791	539-11-0007-00001	35,569	-
Subtotal			<u>35,569</u>	<u>-</u>
Total Passed through Texas Department of Aging and Disability Services			<u>1,494,390</u>	<u>-</u>
Total U. S. Department of Health and Human Services			<u>1,494,390</u>	<u>-</u>

ARK-TEX COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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	PDM-FY13-003	\$ 3,744	\$ -
Hazard Mitigation Grant	97.047	PDM-FY14-004	30,934	-
Subtotal			<u>34,678</u>	<u>-</u>
Homeland Security Grant Program - HSGP 2016	97.067	EMW-2016-SS-00080	60,129	-
Homeland Security Grant Program - HSGP 2017	97.067	EMW-2017-SS-00080	4,585	-
Homeland Security Grant Program - SHSP 2015	97.067	EMW-2015-SS-00080	4,390	-
Subtotal Homeland Security Grant Program			<u>69,104</u>	<u>-</u>
Total Passed through Texas Department of Public Safety			<u>103,782</u>	<u>-</u>
Total U. S. Department of Homeland Security			<u>103,782</u>	<u>-</u>
Total Federal Awards - Primary Government			<u>10,540,756</u>	<u>-</u>
 FEDERAL AWARDS - DISCRETELY PRESENTED COMPONENT UNITS				
<u>U. S. Department of Commerce, Economic Development Administration</u>				
Direct Program:				
Economic Development Support for Planning Organizations - NETED	11.302	08-83-05014	60,000	-
Regional Food Systems Cooperative- NETEDD	11.302	08-86-05064	16,195	-
Subtotal Economic Development Support Program			<u>76,195</u>	<u>-</u>
Revolving Loan Fund - NETEDD	11.307	08-39-02502	575,404	-
Total Direct Program			<u>651,599</u>	<u>-</u>
Total U. S. Department of Commerce, Economic Development Administration			<u>651,599</u>	<u>-</u>
Total Federal Awards - Discretely Presented Component Units			<u>651,599</u>	<u>-</u>
Total Federal Awards - Financial Reporting Entity			<u>\$ 11,192,355</u>	<u>\$ -</u>

ARK-TEX COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

State Grantor/ Program Title	State Grantor Number	Expenditures	Pass-through Expenditures
STATE AWARDS			
<u>Texas Department of Aging and Disability Services</u>			
State General Revenue Title III-E Match	539-11-0005-00001	\$ 39,000	\$ -
State General Revenue - Other	539-11-0005-00001	<u>64,597</u>	<u>-</u>
Total Texas Department of Aging and Disability Services		<u>103,597</u>	<u>-</u>
<u>Office of the Governor, Criminal Justice Division</u>			
Purchase of Juvenile Justice Alternatives	14266-18	17,955	
Purchase of Juvenile Justice Alternatives	14266-18	<u>55,000</u>	<u>-</u>
Subtotal Purchase of Juvenile Justice Alternatives		<u>72,955</u>	<u>-</u>
Regional Law Enforcement Training	14264-16	<u>99,539</u>	<u>-</u>
Subtotal Regional Law Enforcement Training		<u>99,539</u>	<u>-</u>
Total Office of the Governor, Criminal Justice Division		<u>172,494</u>	<u>-</u>
<u>Office of the Governor, Homeland Security Grants Division</u>			
Homeland Interlocal Agreement	FY17	22,803	-
Homeland Interlocal Agreement	FY18	<u>2,255</u>	<u>-</u>
Total Office of the Governor, Homeland Security Grants Division		<u>25,058</u>	<u>-</u>
<u>Texas Department of Transportation</u>			
Rural Transportation	51218011917	495,635	-
Rural Transportation	51218011918	<u>104,197</u>	<u>-</u>
Total Texas Department of Transportation		<u>599,832</u>	<u>-</u>
<u>Texas Commission on Environmental Quality</u>			
Regional Solid Waste	582-16-60645	125,087	
Regional Solid Waste	582-18-80529	<u>8,337</u>	<u>-</u>
Total Texas Commission on Environmental Quality		<u>133,424</u>	<u>-</u>
<u>Commission on State Emergency Communications</u>			
911 Emergency Communications	2015	584,689	-
911 Emergency Communications	2017	2,068,449	-
911 Emergency Communications	2018	<u>70,099</u>	<u>-</u>
Total Commission on State Emergency Communications		<u>2,723,237</u>	<u>-</u>
Total State Awards		<u>\$ 3,757,642</u>	<u>\$ -</u>

ARK-TEX COUNCIL OF GOVERNMENTS

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

SEPTEMBER 30, 2017

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 09/30/2017	\$	536,596
Cash and investment balance at 09/30/2017		389,921
Administrative costs during the fiscal year		20,560
Unpaid principal of loans written off during the fiscal year	(<u>179,872)</u>
Total EDA Revolving Loan Fund Expenditures		767,205
Federal Participation Rate		<u>75%</u>
Total Federal Share of EDA Revolving Loan Fund Expenditures	\$	<u><u>575,404</u></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, 2017

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?

None

Identification of major programs:

CFDA Number(s)	Name of Federal/State Program or Cluster:
14.871	Section 8 Housing Choice Vouchers
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, 2017

None

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