



**ARK-TEX
COUNCIL OF GOVERNMENTS**

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

**FOR THE YEAR ENDED
SEPTEMBER 30, 2012**

ARK-TEX COUNCIL OF GOVERNMENTS

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INDEPENDENT AUDITORS' REPORT

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

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 Ark-Tex Council of Governments (“the Council”) as of and for the year ended September 30, 2012, which collectively comprise the Council’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Council’s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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 Council, as of September 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013, on our consideration of the Council’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's financial statements taken as a whole. The supplemental schedules on pages 24 through 27 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A133, *Audits of States, Local Governments, and Nonprofit Organizations* and the *State of Texas Uniform Grant Management Standards*, issued by the Governor's Office of Budget and Planning, and is also not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

March 18, 2013

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, 2012.

FINANCIAL HIGHLIGHTS

- The assets of Ark-Tex Council of Governments exceeded its liabilities as of September 30, 2012, by \$6,887,142 (net assets).
- The Council's total net assets decreased by \$373,928.
- As of the close of the current fiscal year, Ark-Tex Council of Governments' governmental funds reported combined ending fund balances of \$4,812,222, a decrease of -\$10 in comparison with the prior year.
- As of September 30, 2012, unassigned fund balance for the General Fund was \$4,812,227.

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 Assets presents information on all of the Council's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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 9 – 10 of this report.

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

Governmental Funds – Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of 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 three 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, the Commission on State Emergency Communications Fund, and the Northeast Texas Coalition 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 11 – 12 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 14 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets 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 \$6,887,142 as of September 30, 2012.

A portion of the Council's net assets (\$2,179,449) reflects its investments in capital assets (e.g., land and building and equipment), net of related debt. 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 assets (\$0) is restricted for federal and state programs. The remaining portion of the Council's net assets (\$4,744,990) is unrestricted.

GOVERNMENT-WIDE NET ASSETS

	Governmental Activities	
	2012	2011
Current assets	\$(19)	\$ 7,675,025
Capital assets	2,803,239	3,173,433
Total assets	<u>2,803,220</u>	<u>10,848,458</u>
Long-term liabilities	691,022	724,575
Other liabilities	1	2,184,971
Total liabilities	<u>691,023</u>	<u>2,909,546</u>
Net assets:		
Invested in capital assets, net of related debt	2,179,449	2,512,346
Restricted for federal and state programs	-	1,909,841
Unrestricted	<u>4,744,990</u>	<u>3,516,725</u>
Total net assets	<u>\$ 6,924,439</u>	<u>\$ 7,938,912</u>

In prior years, the Council reported both the EDA and ETRAP/RBEG notes receivable as assets of the North East Texas Economic Development District (NETEDD), a discretely presented component unit. In the current year, the Council determined that the primary government holds the full claim to the financial resources represented by these notes receivable. The result of this restatement is a decrease in the amount of \$677,842 to the beginning net assets of NETEDD, and an increase in the amount of \$677,842 to the beginning net assets of the governmental activities.

The following table provides a summary of the Council’s operations for the year ended September 30, 2012. Governmental activities decreased the Council’s net assets by \$373,928.

GOVERNMENT-WIDE CHANGES IN NET ASSETS

	Governmental Activities	
	2012	2011
Revenues:		
Program revenues:		
Charges for services	\$ 167,691	\$ 213,331
Operating grants and contributions	(197,695)	16,380,256
General revenues:		
Grants and contributions not restricted	30,000	86,563
Miscellaneous income	-	61,852
Investment earnings	-	12,665
Total revenues	(4)	16,754,667
Expenses:		
General government	87,500	1,347,173
Housing and urban development	12,202	7,302,182
Aging	609	2,703,211
Transportation	194,126	2,115,271
Emergency communications	66,718	2,148,839
Environmental quality	46	296,274
Homeland security	12,692	487,120
Criminal justice	31	231,761
Interest on long-term debt	-	35,045
Total expenses	373,924	16,666,876
Change in net assets	(373,928)	87,791
Net assets, beginning	7,261,070	7,173,279
Net assets, ending	\$ 6,887,142	\$ 7,261,070

The Council is approximately 95% percent funded by federal and state grants, which determine funding for the region and the availability of services to be provided. During the current fiscal year, grant revenue decreased \$926,689 (6%). The largest decreases in grant revenue were in the U.S. Department of Housing and Urban Development (\$425,059) and the Commission on State Emergency Communications (\$286,653). Expenses increased by \$610,965 (4%). The largest increases in expenses occurred in the Transportation program (\$846,224) and the Housing and Urban Development program (\$577,289).

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 \$4,812,222. Approximately 100% of this total amount (\$4,812,222) constitutes unassigned fund balance. The remainder of the fund balance (\$0) is either nonspendable, restricted, committed, or assigned. Refer to page 11 of this report for a more detailed presentation of governmental fund balances and to page 18 of this report for a more detailed description of fund balance classifications.

CAPITAL ASSETS

The Ark-Tex Council of Governments' investment in capital assets (net of related debt) for its governmental activities as of September 30, 2012, amounts to \$2,179,449 (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>2012</u>	<u>2011</u>
Land	\$ 273,500	\$ 273,500
Buildings	1,499,268	1,502,583
Equipment	3,216,375	3,221,466
Less: accumulated depreciation	(2,185,904)	(1,824,116)
Total capital assets	<u>\$ 2,803,239</u>	<u>\$ 3,173,433</u>

Additional information on the Council's capital assets can be found in Note 4, page 21 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 \$623,790 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 Brenda Davis, Director of Finance and Administration, at:

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

**BASIC
FINANCIAL STATEMENTS**

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ARK-TEX COUNCIL OF GOVERNMENTS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	Primary Governmental Activities	Component Units	
		NETEDD	ATRDC
ASSETS			
Cash and investments	\$ 2,533,694	\$ 859,199	\$ 149,225
Receivables:			
Grantors	1,264,715	5,683	-
Notes receivable	830,444	639,896	-
Other	3,861	-	-
Prepaid items	18,939	-	-
Due from component units	372,172	-	-
Due from Texarkana Urban Transit District	234,183	-	-
Capital assets:			
Land	273,500	-	-
Buildings	1,499,268	-	-
Equipment	3,216,375	-	-
Less: accumulated depreciation	(2,185,904)	-	-
Total capital assets	2,803,239	-	-
 Total assets	8,061,247	1,504,778	149,225
LIABILITIES			
Accounts payable	341,306	-	-
Due to primary government	-	292,456	79,716
Accrued liabilities	71,036	-	-
Unearned revenue	353,014	-	-
Over allocated indirect costs and employee benefits	54,271	-	-
Due within one year:			
Note payable	34,632	-	-
Compensated absences	67,232	-	-
Due in more than one year:			
Note payable	589,158	-	-
Total liabilities	1,510,649	292,456	79,716
NET ASSETS			
Invested in capital assets, net of related debt	2,179,449	-	-
Restricted for federal and state programs	771,505	-	-
Unrestricted	3,599,644	1,212,322	69,509
 Total net assets	\$ 6,550,598	\$ 1,212,322	\$ 69,509

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, 2012

						<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Indirect Cost Allocation</u>	<u>Expenses After Allocation of Indirect Costs</u>	<u>Program Revenues</u>		<u>Primary Government</u>	<u>Component Units</u>	
				<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>NETEDD</u>	<u>ATRDC</u>
Primary government								
Governmental activities:								
General government	\$ 1,119,444	\$ 45,466	\$ 1,164,910	\$ 167,691	\$ 933,539	\$(63,680)	\$ -	\$ -
Housing and urban development	7,722,229	157,242	7,879,471	36,269	6,689,719	(1,153,483)	-	-
Aging	2,685,851	146,764	2,832,615	-	2,774,374	(58,241)	-	-
Transportation	2,748,313	213,182	2,961,495	31,735	2,741,316	(188,444)	-	-
Emergency communications	1,651,877	97,312	1,749,189	20,482	1,666,154	(62,553)	-	-
Environmental quality	197,728	18,504	216,232	-	217,623	1,391	-	-
Homeland security	247,950	34,403	282,353	-	271,120	(11,233)	-	-
Criminal justice	142,515	16,782	159,297	-	159,722	425	-	-
Indirect costs	729,655	(729,655)	-	-	-	-	-	-
Interest on long-term debt	32,279	-	32,279	-	-	(32,279)	-	-
Total governmental activities	<u>\$ 17,277,841</u>	<u>\$ -</u>	<u>\$ 17,277,841</u>	<u>\$ 256,177</u>	<u>\$ 15,453,567</u>	<u>(1,568,097)</u>	<u>-</u>	<u>-</u>
Component units								
NETEDD	\$ 62,199	\$ 18,112	\$ 80,311	\$ 25,197	\$ 75,387	-	20,273	-
ATRDC	127,274	21,919	149,193	63,471	108,296	-	-	22,574
Indirect costs	<u>40,031</u>	<u>(40,031)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 229,504</u>	<u>\$ -</u>	<u>\$ 229,504</u>	<u>\$ 88,668</u>	<u>\$ 183,683</u>	<u>-</u>	<u>20,273</u>	<u>22,574</u>
General revenues:								
Grants and contributions not restricted to specific programs						89,953	-	-
Unrestricted investment earnings						39,125	187	21
Miscellaneous						<u>50,705</u>	<u>-</u>	<u>-</u>
Total general revenues						<u>179,783</u>	<u>187</u>	<u>21</u>
Change in net assets						(1,388,314)	20,460	22,595
Net assets - beginning						7,261,070	1,869,704	46,914
Prior period adjustment						<u>677,842</u>	<u>(677,842)</u>	<u>-</u>
Net assets - beginning, restated						<u>7,938,912</u>	<u>1,191,862</u>	<u>46,914</u>
Net assets - ending						<u>\$ 6,550,598</u>	<u>\$ 1,212,322</u>	<u>\$ 69,509</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, 2012

	<u>General</u>	<u>Commission on State Emergency Communications</u>	<u>Northeast Texas Coalition</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 2,093,390	\$ 341,798	\$ 98,506	\$ 2,533,694
Receivables:				
Grantors	1,119,687	138,437	6,591	1,264,715
Notes	830,444	-	-	830,444
Other	3,861	-	-	3,861
Prepaid items	18,939	-	-	18,939
Due from other funds	265,110	-	-	265,110
Due from component unit	372,172	-	-	372,172
Due from Texarkana Urban Transit District	234,183	-	-	234,183
Total assets	<u>\$ 4,937,786</u>	<u>\$ 480,235</u>	<u>\$ 105,097</u>	<u>\$ 5,523,118</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	341,306	-	-	341,306
Accrued liabilities	71,036	-	-	71,036
Due to other funds	-	213,069	52,041	265,110
Deferred revenue	32,792	267,166	53,056	353,014
Over allocated indirect costs and employee benefits	54,271	-	-	54,271
Total liabilities	<u>499,405</u>	<u>480,235</u>	<u>105,097</u>	<u>1,084,737</u>
Fund balances:				
Nonspendable	18,939	-	-	18,939
Restricted for:				
Housing and urban development	663,010	-	-	663,010
Transportation	108,495	-	-	108,495
Committed for Chapman Revolving Loan Fund	1,077,592	-	-	1,077,592
Assigned for:				
ETRAP/RBEG Revolving Loan Fund	697,255	-	-	697,255
Criminal justice	51,612	-	-	51,612
Unassigned	1,821,478	-	-	1,821,478
Total fund balances	<u>4,438,381</u>	<u>-</u>	<u>-</u>	<u>4,438,381</u>
Total liabilities and fund balances	<u>\$ 4,937,786</u>	<u>\$ 480,235</u>	<u>\$ 105,097</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,803,239
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(691,022)
Net assets of governmental activities	<u>\$ 6,550,598</u>

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, 2012

	<u>General</u>	<u>Commission on State Emergency Communications</u>	<u>Northeast Texas Coalition</u>	<u>Total Governmental Funds</u>
REVENUES				
Federal	\$ 10,557,814	\$ -	\$ 60,091	\$ 10,617,905
State	1,008,436	1,666,024	47,155	2,721,615
Local	2,273,184	20,482	-	2,293,666
Program income	105,489	-	-	105,489
Membership dues	59,953	-	-	59,953
Investment income	40,042	130	22	40,194
Miscellaneous	<u>50,705</u>	<u>-</u>	<u>-</u>	<u>50,705</u>
Total revenues	<u>14,095,623</u>	<u>1,686,636</u>	<u>107,268</u>	<u>15,889,527</u>
EXPENDITURES				
Current:				
General government	1,077,395	-	-	1,077,395
Housing and urban development	7,867,269	-	-	7,867,269
Aging	2,725,175	-	106,831	2,832,006
Transportation	2,767,369	-	-	2,767,369
Emergency communications	-	1,682,475	-	1,682,475
Environmental quality	216,187	-	-	216,187
Homeland security	269,658	-	-	269,658
Criminal justice	159,265	-	-	159,265
Debt service:				
Principal	37,297	-	-	37,297
Interest	<u>27,681</u>	<u>4,161</u>	<u>437</u>	<u>32,279</u>
Total expenditures	<u>15,147,296</u>	<u>1,686,636</u>	<u>107,268</u>	<u>16,941,200</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,051,673)	-	-	(1,051,673)
FUND BALANCE, BEGINNING	4,812,212	-	-	4,812,212
PRIOR PERIOD ADJUSTMENT	<u>677,842</u>	<u>-</u>	<u>-</u>	<u>677,842</u>
FUND BALANCE, BEGINNING, RESTATED	<u>5,490,054</u>	<u>-</u>	<u>-</u>	<u>5,490,054</u>
FUND BALANCE, ENDING	\$ <u>4,438,381</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,438,381</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, 2012

Net change in fund balances - total governmental funds:	\$(1,051,673)
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.	(345,424)
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 assets.	37,297
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.	(24,770)
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>3,744</u>)
Change in net assets of governmental activities	\$(<u>1,388,314</u>)

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

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ARK-TEX COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 Council's basic financial statements include the accounts of all the Council operations. The criteria for including organizations within the Council's reporting entity, as set forth in GASB No. 14 "The Financial Reporting Entity," is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The following organizations have been included within the Council's reporting entity:

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 included in ATCOG's reporting entity because they are fiscally dependent on the Council.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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.

(continued)

1. SUMMARY OF SIGNIFIANT ACCOUNTING POLICIES (Continued)

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

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.

The North East Texas Coalition Fund is used to account for grants received from the Health and Human Services East Texas Coalition.

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, 2012, was 60.8% and the actual rate was 53.2%.

The cumulative difference between actual and allocated employee benefits at September 30, 2012, was an over-allocation of \$129,687. 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, 2012, was 33.3% and the actual allocation rate was 33.9%. The cumulative difference resulted in an under-allocation of indirect costs at September 30, 2012, of \$75,596. Consistent with the benefits allocation plan described earlier, the allocation differences are reflected as an asset or liability in the financial statements.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities and Net Assets 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. Investments for the Council are reported at fair value.

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, 2012.

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."

Deferred Revenue

Deferred revenue represents amounts received from grantors in excess of expenditures for programs in progress as of September 30, 2012.

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 \$3,000 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:

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

G. Assets, Liabilities and Net Assets or Equity (Continued)

<u>Assets</u>	<u>Years</u>
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 (720 hours), the employee will not accrue any further sick leave nor will the employee be compensated for any excess.

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.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

G. **Assets, Liabilities and Net Assets or Equity** (Continued)

Fund Balance Classification (Continued)

- 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.

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.

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 assets 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 \$345,424 difference are as follows:

Capital outlay	\$	174,648
Depreciation expense	(<u>520,072</u>)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u>(345,424)</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, 2012, the Council had no deposits subject to this risk.

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.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

Primary government capital asset activity for the year ended September 30, 2012, is as follows:

Governmental activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable assets:				
Buildings	\$ 1,502,583	\$ -	\$ 3,315	\$ 1,499,268
Furniture, fixtures and equipment	<u>3,221,466</u>	<u>174,648</u>	<u>179,739</u>	<u>3,216,375</u>
Total	<u>4,724,049</u>	<u>174,648</u>	<u>183,054</u>	<u>4,715,643</u>
Non-depreciable assets:				
Land	<u>273,500</u>	<u>-</u>	<u>-</u>	<u>273,500</u>
Total	<u>273,500</u>	<u>-</u>	<u>-</u>	<u>273,500</u>
Less accumulated depreciation:				
Buildings	335,814	86,017	1,188	420,643
Furniture, fixtures and equipment	<u>1,488,302</u>	<u>434,055</u>	<u>157,096</u>	<u>1,765,261</u>
Total	<u>1,824,116</u>	<u>520,072</u>	<u>158,284</u>	<u>2,185,904</u>
	<u>\$ 3,173,433</u>	<u>\$ (345,424)</u>	<u>\$ 24,770</u>	<u>\$ 2,803,239</u>

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

Governmental activities:

General government	\$ 62,491
Housing and urban development	10,451
Transportation	368,151
Emergency communications	66,340
Homeland security	<u>12,639</u>
Total depreciation expense - governmental activities	<u>\$ 520,072</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

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

Fiscal Year Ending September 30,	Governmental Activities		Total
	Principal	Interest	
2013	\$ 34,632	\$ 33,785	\$ 68,417
2014	36,606	31,811	68,417
2015	38,693	29,724	68,417
2016	<u>513,859</u>	<u>25,313</u>	<u>539,172</u>
Total	<u>\$ 623,790</u>	<u>\$ 120,633</u>	<u>\$ 744,423</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Note payable	\$ 661,087	\$ -	\$ 37,297	\$ 623,790	\$ 34,632
Compensated absences	<u>63,488</u>	<u>106,792</u>	<u>103,048</u>	<u>67,232</u>	<u>67,232</u>
Governmental activities long-term liabilities	<u>\$ 724,575</u>	<u>\$ 106,792</u>	<u>\$ 140,345</u>	<u>\$ 691,022</u>	<u>\$ 101,864</u>

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

5. OTHER INFORMATION

Risk Management

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

(continued)

5. OTHER INFORMATION (Continued)

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, 2012, 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.

6. 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, 2012, the Council's gross retirement payroll was \$2,094,018 and the Council contributed \$125,578 to the employees' accounts, which represents 7% of covered payroll after various adjustments.

7. PRIOR PERIOD ADJUSTMENT

In prior years the Council reported both the EDA and ETRAP/RBEG notes receivable as assets of the North East Texas Economic Development District (NETEDD), a discretely presented component unit. In the current year, the Council determined that the primary government holds the full claim to the financial resources represented by these notes receivable. As a result, the beginning equities in the accompanying financial statements have been restated. The result of this restatement is a decrease in the amount of \$677,842 to the beginning net assets of NETEDD, and an increase in the amount of \$677,842 to the beginning fund balance of the General Fund and the beginning net assets of the Governmental Activities.

SUPPLEMENTAL INFORMATION

ARK-TEX COUNCIL OF GOVERNMENTS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Governor's Office of Criminal Justice</u>	<u>Texas Department of Transportation</u>	<u>Environmental Protection Agency</u>	<u>Texas Commission on Environmental Quality</u>
REVENUES				
Federal	\$ 39,879	\$ 1,822,436	\$ 86,900	\$ 12,922
State	119,843	659,181	-	117,308
Local	-	259,699	-	493
Program income	-	31,735	-	-
Membership dues	-	-	-	-
Investment earnings	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>159,722</u>	<u>2,773,051</u>	<u>86,900</u>	<u>130,723</u>
EXPENDITURES				
General government	-	-	-	-
Housing and urban development	-	-	-	-
Aging	-	-	-	-
Transportation	-	2,767,369	-	-
Emergency communications	-	-	-	-
Environmental quality	-	-	86,871	129,316
Homeland security	-	-	-	-
Criminal justice	159,265	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	457	515	29	1,407
Total expenditures	<u>\$ 159,722</u>	<u>\$ 2,767,884</u>	<u>\$ 86,900</u>	<u>\$ 130,723</u>

<u>U. S. Department of Housing and Urban Development</u>	<u>Texas Department of Aging and Disability Services</u>	<u>U. S. Department of Homeland Security</u>	<u>Commission on State Emergency Communications</u>	<u>Northeast Texas Coalition</u>	<u>Other</u>	<u>Total Governmental Funds</u>
\$ 6,688,802	\$ 1,607,279	\$ 271,120	\$ -	\$ 60,091	\$ 28,476	\$ 10,617,905
-	112,104	-	1,666,024	47,155	-	2,721,615
36,269	873,969	-	20,482	-	1,102,754	2,293,666
-	73,754	-	-	-	-	105,489
-	-	-	-	-	59,953	59,953
917	-	-	130	22	39,125	40,194
-	-	-	-	-	50,705	50,705
<u>6,725,988</u>	<u>2,667,106</u>	<u>271,120</u>	<u>1,686,636</u>	<u>107,268</u>	<u>1,281,013</u>	<u>15,889,527</u>
-	-	-	-	-	1,077,395	1,077,395
7,867,269	-	-	-	-	-	7,867,269
-	2,661,169	-	-	106,831	64,006	2,832,006
-	-	-	-	-	-	2,767,369
-	-	-	1,682,475	-	-	1,682,475
-	-	-	-	-	-	216,187
-	-	269,658	-	-	-	269,658
-	-	-	-	-	-	159,265
-	-	-	-	-	37,297	37,297
<u>4,496</u>	<u>5,937</u>	<u>1,462</u>	<u>4,161</u>	<u>437</u>	<u>13,378</u>	<u>32,279</u>
<u>\$ 7,871,765</u>	<u>\$ 2,667,106</u>	<u>\$ 271,120</u>	<u>\$ 1,686,636</u>	<u>\$ 107,268</u>	<u>\$ 1,192,076</u>	<u>\$ 16,941,200</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, 2012

	<u>Budget</u>	<u>Actual</u>
EMPLOYEE SALARY BENEFITS		
Salaries (release time):		
Vacations	\$ 104,982	\$ 107,104
Holidays	82,511	80,935
Sick leave	74,260	50,167
Liability differential	<u>1,000</u>	<u>-</u>
Total employee salary benefits	<u>262,753</u>	<u>238,206</u>
OTHER EMPLOYEE BENEFITS		
Longevity pay benefit	16,515	16,515
Hospitalization	473,736	417,987
Payroll taxes	166,571	158,850
Unemployment insurance	11,893	16,687
Workers' compensation insurance	15,935	13,901
Retirement	<u>151,326</u>	<u>125,578</u>
Total other employee benefits	<u>835,976</u>	<u>749,518</u>
Total salary and other employee benefits	1,098,729	987,724
FISCAL YEAR 2010 CUMULATIVE UNDER-ALLOCATION	<u>55,555</u>	<u>-</u>
Total employee benefits and carryforward	\$ <u>1,154,284</u>	\$ <u>987,724</u>
BASIS FOR ALLOCATION		
Gross salaries	\$ 2,160,888	\$ 2,094,018
Less release time	<u>(262,753)</u>	<u>(238,206)</u>
Total chargeable salaries	<u>1,898,135</u>	<u>1,855,812</u>
RATE COMPUTATION		
Total employee benefits	1,154,284	987,724
Total chargeable salaries	<u>1,898,135</u>	<u>1,855,812</u>
Computed rate	<u>60.8%</u>	<u>53.2%</u>
ALLOCATION		
Total actual benefits		987,724
Allocated directly to grants		<u>(880,241)</u>
Allocated to indirect cost pool		<u>(247,471)</u>
AMOUNT UNDER (OVER) ALLOCATED		<u>(139,988)</u>
PRIOR YEAR UNDER-ALLOCATION CARRYFORWARD		<u>10,121</u>
TOTAL CUMULATIVE OVER-ALLOCATION		\$ <u>(129,867)</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, 2012

	Budget	Actual
INDIRECT COSTS		
Salaries	\$ 390,666	\$ 407,025
Benefits	<u>237,570</u>	<u>247,471</u>
Total salaries and benefits	628,236	654,496
Audit	35,000	34,125
Travel	31,200	38,009
Office rental	37,000	37,461
Office supplies	10,400	13,854
Copy services	2,800	1,570
Telephone	13,000	14,878
Postage	5,300	5,150
Other	41,703	55,287
Fiscal year 2010 cumulative under-allocation	92,645	-
Contract for special projects	<u>(90,000)</u>	<u>(71,691)</u>
Total indirect costs	<u>807,284</u>	<u>783,139</u>
 BASIS FOR ALLOCATION		
Direct salaries	1,507,469	1,448,787
Direct benefits	<u>916,714</u>	<u>860,692</u>
Total direct personnel costs	<u>2,424,183</u>	<u>2,309,479</u>
 INDIRECT COST RATE COMPUTATION		
Total indirect costs	807,284	783,139
Total direct personnel costs	<u>2,424,183</u>	<u>2,309,479</u>
Computed rate	<u>33.3%</u>	<u>33.9%</u>
 ALLOCATION		
Total actual indirect costs		783,139
Indirect costs allocated		<u>(769,686)</u>
 AMOUNT UNDER (OVER) ALLOCATED		
		13,453
 PRIOR YEAR UNDER-ALLOCATION CARRYFORWARD		
		<u>62,143</u>
 TOTAL CUMULATIVE UNDER-ALLOCATION		
		<u>\$ 75,596</u>

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SINGLE AUDIT

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

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

We have audited the 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, 2012, which collectively comprise the Council’s basic financial statements and have issued our report thereon dated March 18, 2013. 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.

Internal Control Over Financial Reporting

Management of the Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Council’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council’s internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Council, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

March 18, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND THE STATE OF TEXAS UNIFORM
GRANT MANAGEMENT STANDARDS**

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

Compliance

We have audited the compliance of Ark-Tex Council of Governments (the “Council”) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *State of Texas Uniform Grant Management Standards* 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, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Council’s management. Our responsibility is to express an opinion on the Council’s compliance based on our audit.

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; Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations* and the State of Texas *Uniform Grant Management Standards (“UGMS”)*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Council’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Council’s compliance with those requirements.

As described in items 2012-1 and 2012-2 in the accompanying Schedule of Findings and Questioned Costs, the Council did not comply with requirements regarding reporting and special tests and provisions that are applicable to its Section 8 Housing Choice Vouchers program. Compliance with such requirements is necessary, in our opinion, for the Council to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Council complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of Ark-Tex Council of Governments is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Uniform Grant Management Standards, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* 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 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-2 to be a material weakness.

The Council's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Council's responses and, accordingly, we express no opinion on those responses.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Ark-Tex Council of Government's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Ark-Tex Council of Government's compliance but not to provide an opinion on the effectiveness of Ark-Tex Council of Government's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ark-Tex Council of Government's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

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

March 18, 2013

ARK-TEX COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<u>U. S. DEPARTMENT OF COMMERCE.</u>			
<u>ECONOMIC DEVELOPMENT ADMINISTRATION</u>			
NETEDD Economic Development Administration	11.302	08-83-04677	\$ 24,704
NETEDD Economic Development Administration	11.302	08-83-04737	50,683
Subtotal 11.302			<u>75,387</u>
NETEDD EDA Revolving Loan Fund	11.307	08-39-02502	<u>955,359</u>
Total U. S. Department of Commerce, Economic Development Administration			<u>1,030,746</u>
<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	C711212	<u>5,023</u>
Total Passed through the Texas Department of Agriculture			<u>5,023</u>
Passed through the General Land Office:			
Community Development Block Grant	14.228	10-5310-000-5318	<u>819,219</u>
Total Passed through the General Land Office			<u>819,219</u>
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	TX499	<u>5,864,560</u>
Total Direct Program			<u>5,864,560</u>
Total U. S. Department of Housing and Urban Development			<u>6,688,802</u>
<u>U. S. DEPARTMENT OF JUSTICE</u>			
Passed through Office of the Governor, Criminal Justice Division:			
Purchase of Juvenile Justice Alternatives	16.540	14266-13	<u>39,879</u>
Total Passed through Office of the Governor, Criminal Justice Division			<u>39,879</u>
Total U. S. Department of Justice			<u>39,879</u>
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through Texas Department of Transportation:			
Section 5311 Rural Transportation - ARRA	20.509	51019F7083	54,664
Section 5311 Rural Transportation	20.509	51019F7189	38,576
Section 5311 Rural Transportation	20.509	51119F7041	49,507
Section 5311 Rural Transportation	20.509	51119F7177	902,444
Section 5311 Rural Transportation	20.509	51219F7196	2,500
Section 5311 Rural Transportation	20.509	51219F7200	108,193
Section 5311 Rural Transportation	20.509	51219F7238	<u>58,536</u>
Subtotal 20.509			1,214,420

(continued)

ARK-TEX COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<u>U. S. DEPARTMENT OF TRANSPORTATION</u> (Continued)			
Passed through Texas Department of Transportation (Continued):			
Section 5310 Transportation for Elderly and Disabled	20.513	51119F7219	\$ 200,027
Section 5310 Transportation for Elderly and Disabled	20.513	51219F7140	27,006
Section 5316 Job Access Reverse Commute	20.516	51019F7324	27,011
Section 5316 Job Access Reverse Commute	20.516	51019F7325	11,927
Section 5316 Job Access Reverse Commute	20.516	51119F7106	600
Section 5316 Job Access Reverse Commute	20.516	51119F7606	119,398
Section 5316 Job Access Reverse Commute	20.516	51219F7127	44,389
Section 5316 Job Access Reverse Commute	20.516	51219F7240	16,000
Section 5316 Job Access Reverse Commute	20.516	51219F7241	9,369
Section 5317 New Freedom Program	20.521	51119F7292	68,021
Section 5317 New Freedom Program	20.521	51119F7293	9,901
Subtotal Transit Services Programs Cluster			<u>533,649</u>
Section 5304 State Planning and Research	20.515	51219F7106	73,478
Section 5304 State Planning and Research	20.515	51319F7071	889
Subtotal 20.515			<u>74,367</u>
Total Passed through Texas Department of Transportation			<u>1,822,436</u>
Total U. S. Department of Transportation			<u>1,822,436</u>
<u>SMALL BUSINESS ADMINISTRATION</u>			
Direct:			
ATRDC - 504 Certified Development Loans	59.041	N/A	<u>105,596</u>
Total Direct			<u>105,596</u>
Total Small Business Administration			<u>105,596</u>
<u>ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct:			
Brownfields Hazardous Assessment - Petroleum	66.818	BF-96698901-0	84,085
Brownfields Hazardous Assessment - Hazardous	66.818	BF-96699001-0	2,815
Total Direct			<u>86,900</u>
Passed through Texas Commission on Environmental Quality:			
Water Quality	66.454	582-12-10086	12,160
Water Quality	66.454	582-13-30043	762
Total Passed through Texas Commission on Environmental Quality			<u>12,922</u>
Total Environmental Protection Agency			<u>99,822</u>

(continued)

ARK-TEX COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through Texas Department of Aging and Disability Services:			
2012 Title III-B	93.044	539-11-0005-00001	\$ 455,428
2011 Title III-B	93.044	539-11-0005-00001	25,467
2012 SUA Title III-B	93.044	539-11-0005-00001	23,495
2012 Title III-C1	93.045	539-11-0005-00001	313,378
2011 Title III-C1	93.045	539-11-0005-00001	26,519
2012 SUA Title III-C1	93.045	539-11-0005-00001	28,907
2012 Title III-C2	93.045	539-11-0005-00001	283,652
2011 Title III-C2	93.045	539-11-0005-00001	14,062
2012 NSIP	93.053	539-11-0005-00001	100,082
2011 NSIP	93.053	539-11-0005-00001	211
Subtotal Aging Cluster			<u>1,271,201</u>
2012 Title VII-EAP	93.041	539-11-0005-00001	4,986
2011 Title VII-EAP	93.041	539-11-0005-00001	47
Subtotal 93.041			<u>5,033</u>
2012 Title VII-OAG	93.042	539-11-0005-00001	22,820
2011 Title VII-OAG	93.042	539-11-0005-00001	116
Subtotal 93.042			<u>22,936</u>
2012 Title III-D	93.043	539-11-0005-00001	4,185
2012 Title III-D Evidence Based Intervention	93.043	539-11-0005-00001	14,126
2011 Title III-D	93.043	539-11-0005-00001	3,598
2011 Title III-D Medication Management	93.043	539-11-0005-00001	1,694
Subtotal 93.043			<u>23,603</u>
2012 Title III-E	93.052	539-11-0005-00001	135,671
2011 Title III-E	93.052	539-11-0005-00001	37,227
2012 SUA Title III-E	93.052	539-11-0005-00001	7,390
Subtotal 93.052			<u>180,288</u>
Affordable Care Act - MIPPA	93.518	539-11-0005-00001	14,895
Chronic Disease Self Management - ARRA	93.725	539-11-0005-00001	60,091
CMS Basic (04/01/12 - 03/31/13)	93.779	539-11-0005-00001	30,767
CMS Basic (04/01/11 - 03/31/12)	93.779	539-11-0005-00001	44,361
CMS-MIPPA	93.779	539-11-0005-00001	13,038
Subtotal 93.779			<u>88,166</u>
2012 OMB MFPD	93.791	539-11-0005-00001	1,157
Total Passed through Texas Department of Aging and Disability Services			<u>1,667,370</u>
Total U. S. Department of Health and Human Services			<u>1,667,370</u>

(continued)

ARK-TEX COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<u>U. S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through the Texas Department of Public Safety			
Hurricane Katrina Evacuation - Admin	97.039	FEMA 3216 EM TX	\$ 28,476
Hazard Mitigation Grant	97.039	DR-1791-076	1,337
Hazard Mitigation Grant	97.039	DR-1791-209	<u>10,422</u>
Subtotal 97.039			40,235
Emergency Operations Center	97.052	EMW-2011-EO-00030	861
Interoperable Emergency Communications Grant Program	97.055	2010-IP-TO-0005	57,851
Homeland Security Grant Program - SHSP SOW 2009	97.073	2009-SS-T9-0064	391
Homeland Security Grant Program - SHSP 2010	97.073	2010-SS-T0-0008	61,258
Homeland Security Grant Program - SHSP SOW 2010	97.073	2010-SS-T0-0008	126,786
Homeland Security Grant Program - SHSP 2011	97.073	EMW-2011-SS-00019	10,599
Homeland Security Grant Program - CCP 2011	97.067	EMW-2011-SS-00019	<u>1,615</u>
Subtotal Homeland Security Grant Program			<u>200,649</u>
Total Passed through Texas Department of Public Safety			<u>299,596</u>
Total U. S. Department of Homeland Security			<u>299,596</u>
Total Federal Awards			<u>11,754,247</u>

(continued)

ARK-TEX COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2012

State Grantor/ Program Title	State Grantor Number	Expenditures
<u>TEXAS DEPARTMENT OF AGING AND DISABILITY SERVICES</u>		
State General Revenue Title III-E Match	539-11-0005-00001	\$ 42,600
State General Revenue - Other	539-11-0005-00001	64,935
State General Revenue - Additional Other	539-11-0005-00001	4,569
Total Texas Department of Aging and Disability Services		<u>112,104</u>
<u>TEXAS HEALTH AND HUMAN SERVICES COMMISSION</u>		
Passed through Health and Human Services East Texas Coalition:		
Outreach and Assistance	529-06-0405-00018C	47,155
Total Passed through Health and Human Services East Texas Coalition		<u>47,155</u>
Total Texas Health and Human Services Commission		<u>47,155</u>
<u>OFFICE OF THE GOVERNOR, CRIMINAL JUSTICE DIVISION</u>		
Regional Criminal Justice Coordination	300-2-0343	53,738
Regional Criminal Justice Coordination	300-3-0315	2,012
Subtotal Regional Criminal Justice Coordination		<u>55,750</u>
Regional Law Enforcement Training	14264-12	63,912
Purchase of Juvenile Justice Alternatives	14266-14	181
Total Office of the Governor, Criminal Justice Division		<u>119,843</u>
<u>TEXAS DEPARTMENT OF TRANSPORTATION</u>		
Scholarship Reimbursement	12-0005	5,344
Rural Transportation	51219F7002	606,060
Rural Transportation	51319F7002	47,777
Subtotal Rural Transportation		<u>653,837</u>
Total Texas Department of Transportation		<u>659,181</u>
<u>TEXAS COMMISSION ON ENVIRONMENTAL QUALITY</u>		
Solid Waste Management	582-10-91877	17,940
Solid Waste Management	582-12-10143	99,368
Total Texas Commission on Environmental Quality		<u>117,308</u>
<u>COMMISSION ON STATE EMERGENCY COMMUNICATIONS</u>		
911 Emergency Communications	2011	401,860
911 Emergency Communications	2012	1,190,665
911 Emergency Communications	2013	73,499
Total Commission on State Emergency Communications		<u>1,666,024</u>
Total State Awards		<u>2,721,615</u>
Total Federal and State Awards		<u>\$ 14,475,862</u>

The accompanying notes are an integral part of this schedule.

ARK-TEX COUNCIL OF GOVERNMENTS

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

SEPTEMBER 30, 2012

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 Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* and *the State of Texas Single Audit Circular*. 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 09/30/2012	\$ 872,753
Cash and investment balance at 09/30/2012	398,183
Administrative costs during the fiscal year	2,876
Unpaid principal of loans written off during the fiscal year	<u>-</u>
Total EDA Revolving Loan Fund Expenditures	1,273,812
Federal Participation Rate	<u>75%</u>
Total Federal Share of EDA Revolving Loan Fund Expenditures	<u>\$ 955,359</u>

ARK-TEX COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? None

Federal and State Awards:

Internal control over major programs:

Material weakness(es) identified? 2012-2

Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs Unqualified for all major programs except for Section 8 Housing Choice Vouchers, which was qualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 or State of Texas Uniform Grant Management Standards?

2012-1, 2012-2

Identification of major programs:

CFDA Number(s)

11.307

14.228

14.871

93.044, 93.045, 93.053

State

Name of Federal/State Program or Cluster:

NETEDD EDA Revolving Loan Fund

Community Development Block Grant

Section 8 Housing Choice Vouchers

Aging Cluster

911 Emergency Communications

Dollar threshold used to distinguish between type A and type B federal programs

\$352,627

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 OMB Circular A-133?

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

ARK-TEX COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Findings and Questioned Costs for Federal and State Awards

Item 2012-01:

Federal Grantor:	U. S. Department of Housing and Urban Development
Program:	CFDA 14.871 – Section 8 Housing Choice Vouchers Direct Program – TX499
Compliance Requirement:	Special Tests and Provisions – Utility Allowance Schedule
Criteria:	A PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule (24 CFR 982.517(c)).
Condition:	There is no evidence that the Council conducted an annual review of utility rate data.
Context:	A comparison of the utility allowance schedules to those of other PHAs within the State did not result in any unreasonable variances.
Effect:	The Council was not in compliance with the requirements underlying this special test.
Cause:	The Council experienced turnover in program management during the current fiscal year, which could have contributed to this condition.
Recommendation:	The Council should assign the responsibility for ensuring compliance with this requirement to appropriate personnel and adopt policies and procedures to monitor compliance with this requirement.
Management's Response:	The Council will contact the local utility companies annually to determine current utility rates to be used to update the allowance schedule.

(continued)

ARK-TEX COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Findings and Questioned Costs for Federal and State Awards (Continued)

Item 2012-02:

Federal Grantor:	U. S. Department of Housing and Urban Development
Program:	CFDA 14.871 – Section 8 Housing Choice Vouchers Direct Program – TX499
Compliance Requirement:	Reporting; Special Tests and Provisions – Housing Quality Standards Inspections
Criteria:	A PHA must submit the HUD-required SEMAP certification form within 60 calendar days after the end of its fiscal year (24 CFR 985.101(a)). In order to properly certify the SEMAP submission, a PHA must perform quality control testing on a sample of data for each performance indicator: <ul style="list-style-type: none">24 CFR 985.3 (a) Selection from the waiting list(b) Reasonable rent(c) Determination of adjusted income(e) HQS quality control inspections(f) HQS enforcement
Condition:	The Council did not submit the required SEMAP certification for the 2012 PHA fiscal year by the November 29, 2012 due date. As a precursor to the SEMAP certification, the Council did not perform quality control testing on the following performance indicators: selection from the waiting list, reasonable rent, determination of adjusted income, HQS quality control inspections, HQS enforcement.
Cause:	The Council experienced turnover in program management during the current fiscal year, which could have contributed to this condition.
Effect:	The U.S. Department of Housing and Urban Development has designated the Council a Troubled Agency. Additionally, the Council has no assurance that the compliance objectives relevant to the aforementioned performance indicators are being met.
Recommendation:	The Council should perform the required quality control procedures and maintain appropriate documentation, as described in 24 CFR 985.3.
Management's Response:	ATCOG is currently updating the Policies and Procedures for the Section 8 Housing Choice Vouchers program. The updated policies will ensure the required report will be completed in a timely manner

ARK-TEX COUNCIL OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

None