

ANNUAL FINANCIAL REPORT

of the

**CAPITAL AREA COUNCIL
OF GOVERNMENTS**

For the Year Ended
September 30, 2014

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CAPITAL AREA COUNCIL OF GOVERNMENTS

TABLE OF CONTENTS

September 30, 2014

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	7
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet – Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Notes to Financial Statements	25
<u>OTHER SUPPLEMENTARY INFORMATION</u>	
Combining Balance Sheet – Nonmajor Special Revenue Funds by Funding Source	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds by Funding Source	40
Schedule of Indirect Costs	42
Schedule of Fringe Benefits	43
<u>FEDERAL AND STATE AWARDS</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By <i>OMB Circular A-133</i> , the <i>State of Texas Single Audit Circular</i> and Schedules of Expenditures of Federal and State Awards	49
Summary Schedule of Prior Audit Findings	52
Schedule of Findings and Questioned Costs	53
Schedule of Expenditures of Federal Awards	54
Schedule of Expenditures of State Awards	55
Notes to Schedules of Expenditures of Federal and State Awards	56

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INDEPENDENT AUDITORS' REPORT

To the Executive Committee Members of the
Capital Area Council of Governments:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Capital Area Council of Governments (CAPCOG), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise CAPCOG's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CAPCOG'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 CAPCOG'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, each major fund, and the aggregate remaining fund information of CAPCOG as of September 30, 2014, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CAPCOG's basic financial statements. The combining statements are presented for purposes of additional analysis and are not required parts of the financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the 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 statements, the schedule of expenditures of federal and state awards, and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The combining statements, the schedule of expenditures of federal and state awards, and other supplementary information are the responsibility of management and were derived from and relate to the underlying accounting and other records used to prepare the basic financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2015 on our consideration of CAPCOG'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 CAPCOG's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
May 15, 2015

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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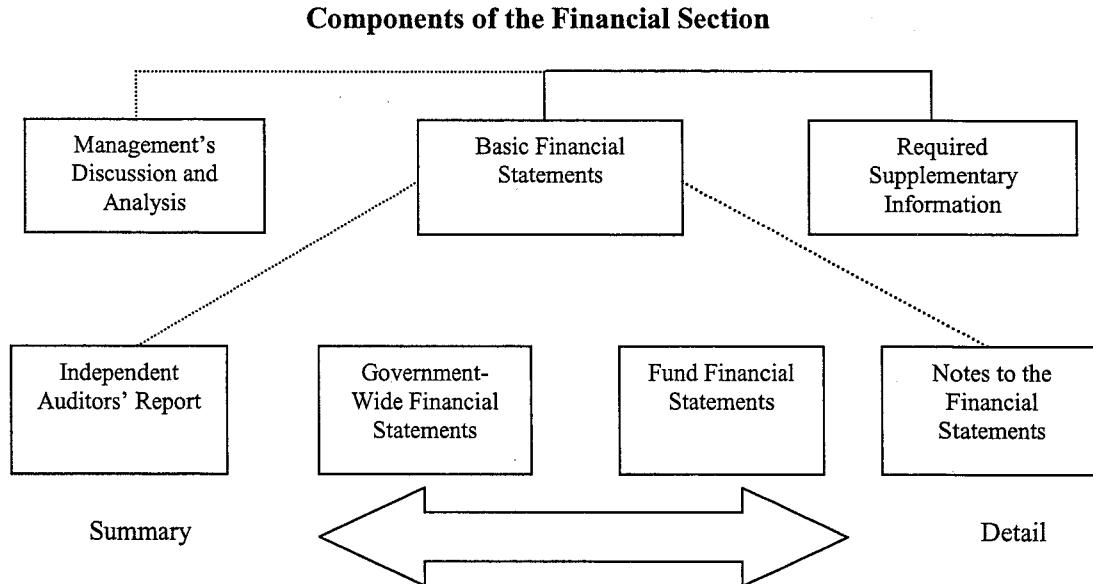
CAPITAL AREA COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2014

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the Capital Area Council of Governments (CAPCOG) for the year ending September 30, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of CAPCOG's activities. Please read the MD&A in conjunction with CAPCOG's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



CAPCOG's basic financial report include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for CAPCOG as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of CAPCOG as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in CAPCOG's financial statements, report information on CAPCOG's activities that enable the reader to understand the financial condition of CAPCOG. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

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

The Statement of Activities presents information showing how CAPCOG's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

CAPITAL AREA COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

occurs, regardless of the timing of related cash flows – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities present one class of activities:

1. Governmental Activities – CAPCOG's basic services are reported here including services from the Capital Area Emergency Communication District (CAECD), criminal justice, aging and general government. Grants, membership dues, and contract service revenue finance most of these activities.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is CAPCOG. They are usually segregated for specific activities or objectives. CAPCOG uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. CAPCOG uses only one category of funds, which is governmental.

Governmental Funds

Governmental funds are used to account for essentially 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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating CAPCOG'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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

CAPCOG maintains ten 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, aging fund, Texas Commission on Environmental Quality fund, CAECD fund, and housing and urban development fund, which are considered to be major funds.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

CAPITAL AREA COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of CAPCOG's financial position. Assets and deferred outflows of resources exceed liabilities by \$17,281,195 as of September 30, 2014 for the primary government. A portion of the CAPCOG's net position (21%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure). CAPCOG uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Total Dollar Change
	2014	2013	2014-2013
Current and other assets	\$ 16,353,622	\$ 6,870,805	\$ 9,482,817
Capital assets, net	3,634,712	3,796,489	(161,777)
Total Assets	<u>19,988,334</u>	<u>10,667,294</u>	<u>9,321,040</u>
Other liabilities	2,707,139	3,529,739	(822,600)
Total Liabilities	<u>2,707,139</u>	<u>3,529,739</u>	<u>(822,600)</u>
Net Position:			
Net investment in capital asset	3,634,712	3,796,489	(161,777)
Restricted	12,503,290	2,383,740	10,119,550
Unrestricted	1,143,193	957,326	185,867
Total Net Position	<u>\$ 17,281,195</u>	<u>\$ 7,137,555</u>	<u>\$ 10,143,640</u>

A portion of CAPCOG's net position, \$12,503,290, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$1,143,193, may be used to meet CAPCOG's ongoing obligations to members.

CAPCOG's total net position increased \$10,143,640. This increase is largely due to revenues collected for emergency communication services and payments from the Commission on State Emergency Communications agency.

CAPITAL AREA COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

Statement of Activities:

The following table provides a summary of CAPCOG's changes in net position:

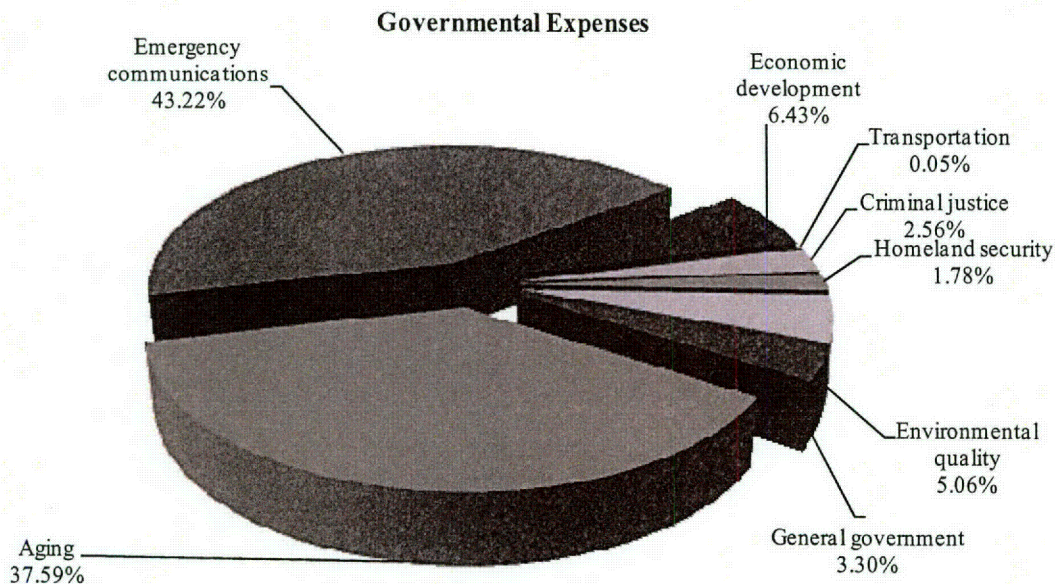
	Governmental Activities		Total Dollar Change
	2014	2013	2014-2013
Revenues			
Program revenues:			
Charges for services	\$ 12,642,082	\$ 1,450,797	\$ 11,191,285
Operating grants and contributions	17,553,314	23,258,928	(5,705,614)
General revenues:			
Membership dues	240,283	235,392	4,891
Contract service revenue	881,350	981,612	(100,262)
Miscellaneous	78,442	65,242	13,200
Interest income	3,287	2,674	613
Total Revenues	<u>31,398,758</u>	<u>25,994,645</u>	<u>5,404,113</u>
Expenses			
General government	702,259	1,132,873	(430,614)
Aging	7,989,680	7,711,827	277,853
Emergency communications	9,187,161	10,770,250	(1,583,089)
Economic development	1,367,517	2,379,741	(1,012,224)
Transportation	10,513	9,638	875
Criminal justice	545,008	439,115	105,893
Homeland security	377,760	454,548	(76,788)
Environmental quality	1,075,220	1,007,949	67,271
Total Expenses	<u>21,255,118</u>	<u>23,905,941</u>	<u>(2,650,823)</u>
Change in Net Position	10,143,640	2,088,704	8,054,936
Beginning net position	<u>7,137,555</u>	<u>5,048,851</u>	<u>2,088,704</u>
Ending Net Position	<u>\$ 17,281,195</u>	<u>\$ 7,137,555</u>	<u>\$ 10,143,640</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

Graphic presentations of selected data from the summary tables follows to assist in the analysis of CAPCOG's activities.



For the year ended September 30, 2014, revenues from governmental activities totaled \$31,398,758, an increase of \$5,404,113 over the prior year. The majority of this increase includes the remainder of funds received from the State of Texas through the Commission on State Emergency Communications as a result of the 911 Division becoming a 911 District.

As of the end of the fiscal year, expenses for governmental activities totaled \$21,255,118, which represents a decrease of \$2,650,823 over the prior year. This decrease is mainly due to a decrease in expenses for the 911 network.

FINANCIAL ANALYSIS OF CAPCOG'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of CAPCOG's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing CAPCOG's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of CAPCOG's net resources available for spending at the end of the year.

CAPCOG's governmental funds reflect a combined fund balance of \$13,820,694. Of this, \$1,317,404 is unassigned and \$12,503,290 is restricted for various purposes.

The general fund reported a fund balance of \$1,317,404, an increase of \$162,488 over the prior year. In the aging fund, revenues exceeded expenditures giving the aging fund a restricted fund balance of \$24,474. In the housing and urban development fund, revenues matched expenditures this year; therefore, no change in fund balance is reported. The CAECD reported a fund balance of \$12,250,192, which is a \$10,082,140 increase due primarily to revenues from intergovernmental and charges for services. The Texas Commission on Environmental Quality fund balance slightly increased to \$17,952.

CAPITAL AREA COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

CAPITAL ASSETS

At the end of the year, CAPCOG's governmental activities had invested \$3,634,712, net of depreciation, in a variety of capital assets, including equipment for emergency communications.

More detailed information about CAPCOG's capital assets, is presented in note III.B. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

CAPCOG is dependent on federal and state funding, which may vary widely from year to year. The federal economic condition and federal and state budget deficits can impact the re-authorization of funds available to local governments.

For the year of 2015, CAPCOG has expected revenues of \$23,805,525.

CONTACTING CAPCOG'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of CAPCOG's finances. Questions concerning this report or requests for additional financial information should be directed to Capital Area Council of Governments, 6800 Burleson Road, Building 310, Suite 165, Austin, Texas 78744.

BASIC FINANCIAL STATEMENTS

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CAPITAL AREA COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

September 30, 2014

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 14,234,523
Receivables	796,381
Due from grantor agencies	1,278,763
Other assets	43,955
	<u>16,353,622</u>
Capital assets:	
Net depreciable capital assets	3,634,712
Total Assets	<u><u>19,988,334</u></u>
<u>Liabilities</u>	
Accounts payable	1,840,567
Employee retirement payable	168,734
Accrued employee benefits	174,211
Unearned revenues	523,627
Total Liabilities	<u><u>2,707,139</u></u>
<u>Net Position</u>	
Net investment in capital assets	3,634,712
Restricted	12,503,290
Unrestricted	1,143,193
Total Net Position	<u><u>\$ 17,281,195</u></u>

See Notes to Financial Statements.

CAPITAL AREA COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Indirect and Internal Cost Allocation	Expenses After Indirect and Internal Cost Allocation
Primary Government:			
Governmental Activities			
General government	\$ 2,194,438	\$ (1,492,179)	\$ 702,259
Aging	7,631,549	358,131	7,989,680
Emergency communication	8,410,099	777,062	9,187,161
Economic development	1,326,647	40,870	1,367,517
Transportation	8,283	2,230	10,513
Criminal justice	433,340	111,668	545,008
Homeland security	295,821	81,939	377,760
Environmental quality	954,941	120,279	1,075,220
Total Governmental Activities	21,255,118	-	21,255,118
Total Primary Government	\$ 21,255,118	\$ -	\$ 21,255,118

General Revenues:

Membership dues
Contract service revenue
Miscellaneous
Interest income

Total General Revenues

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

<u>Program Revenues</u>		<u>Net (Expense)</u>
<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
	<u>Contributions</u>	<u>Net Position</u>
		<u>Governmental</u>
		<u>Activities</u>
\$ (116,275)	\$ 31,824	\$ (786,710)
-	7,741,142	(248,538)
12,526,065	6,817,820	10,156,724
-	1,367,517	-
-	-	(10,513)
232,292	220,547	(92,169)
-	396,078	18,318
-	978,386	(96,834)
<u>12,642,082</u>	<u>17,553,314</u>	<u>8,940,278</u>
<u>\$ 12,642,082</u>	<u>\$ 17,553,314</u>	<u>8,940,278</u>

240,283
881,350
78,442
3,287
<u>1,203,362</u>
10,143,640
7,137,555
<u>\$ 17,281,195</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2014

	General	Aging	Texas Commission on Environmental Quality	Housing and Urban Development
Assets				
Cash and cash equivalents	\$ 1,579,613	\$ 525	\$ 483,992	\$ -
Receivables	115,270	57,556	27,800	-
Due from grantor agencies	-	808,459	4,434	-
Due from other funds	1,254,773	-	-	-
Prepaid items	43,198	-	-	-
Total Assets	\$ 2,992,854	\$ 866,540	\$ 516,226	\$ -
Liabilities				
Accounts payable	\$ 1,197,813	\$ 14,043	\$ 316	\$ -
Employee retirement payable	168,734	-	-	-
Due to other funds	308,903	748,609	115,445	-
Unearned revenue	-	79,414	382,513	-
Total Liabilities	1,675,450	842,066	498,274	-
Fund Balances				
Restricted	-	24,474	17,952	-
Unassigned	1,317,404	-	-	-
Total Fund Balances	1,317,404	24,474	17,952	-
Total Liabilities and Fund Balances	\$ 2,992,854	\$ 866,540	\$ 516,226	\$ -

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

Capital assets - depreciable
Accumulated depreciation

Some liabilities are not reported as liabilities in the governmental funds.

Accrued compensated absences

Net Position of Governmental Activities

See Notes to Financial Statements.

<u>Capital Area Emergency Communication District</u>	<u>Nonmajor Special Revenue</u>	<u>Total Governmental Funds</u>
\$ 12,170,393	\$ -	\$ 14,234,523
541,492	54,263	796,381
-	465,870	1,278,763
166,702	142,201	1,563,676
-	757	43,955
<u>\$ 12,878,587</u>	<u>\$ 663,091</u>	<u>\$ 17,917,298</u>
\$ 628,395	\$ -	\$ 1,840,567
-	-	168,734
-	390,719	1,563,676
-	61,700	523,627
<u>628,395</u>	<u>452,419</u>	<u>4,096,604</u>
12,250,192	210,672	12,503,290
-	-	1,317,404
<u>12,250,192</u>	<u>210,672</u>	<u>13,820,694</u>
<u>\$ 12,878,587</u>	<u>\$ 663,091</u>	<u>17,917,298</u>
		20,320,090
		(16,685,378)
		(174,211)
		<u>\$ 17,281,195</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	General	Aging	Texas Commission on Environmental Quality	Housing and Urban Development
Revenues				
Federal grants	\$ -	\$ 4,200,102	\$ 445	\$ 870,122
State grants	-	212,007	584,646	-
Membership dues	240,283	-	-	-
Local match	(130,883)	-	-	-
Other local revenue	-	-	-	228,473
Intergovernmental	-	-	-	-
Miscellaneous	64,170	-	14,272	-
Interest	504	-	-	-
Tuition fees	14,608	-	-	-
Contract service revenue	431,366	262,512	82,358	-
Contractual local match	31,824	3,329,033	-	-
Total Revenues	651,872	8,003,654	681,721	1,098,595
Expenditures				
Current:				
General government	489,384	-	-	-
Aging	-	7,989,680	-	-
Emergency communications	-	-	-	-
Economic development	-	-	-	1,098,595
Transportation	-	-	-	-
Criminal justice	-	-	-	-
Homeland security	-	-	-	-
Environmental quality	-	-	672,209	-
Total Expenditures	489,384	7,989,680	672,209	1,098,595
Net Change in Fund Balances	162,488	13,974	9,512	-
Beginning fund balances	1,154,916	10,500	8,440	-
Ending Fund Balances	\$ 1,317,404	\$ 24,474	\$ 17,952	\$ -

See Notes to Financial Statements.

Capital Area Emergency Communication District	Nonmajor Special Revenue	Total Governmental Funds
\$ -	\$ 702,596	\$ 5,773,265
-	220,547	1,017,200
-	-	240,283
-	-	(130,883)
12,526,065	-	12,754,538
6,817,820	-	6,817,820
-	-	78,442
2,783	-	3,287
-	232,292	246,900
-	105,114	881,350
-	355,699	3,716,556
<u>19,346,668</u>	<u>1,616,248</u>	<u>31,398,758</u>
-	-	489,384
-	-	7,989,680
9,264,528	-	9,264,528
-	268,922	1,367,517
-	10,513	10,513
-	533,516	533,516
-	396,078	396,078
-	393,295	1,065,504
<u>9,264,528</u>	<u>1,602,324</u>	<u>21,116,720</u>
10,082,140	13,924	10,282,038
2,168,052	196,748	3,538,656
<u>\$ 12,250,192</u>	<u>\$ 210,672</u>	<u>\$ 13,820,694</u>

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CAPITAL AREA 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, 2014

Net changes in fund balances - total governmental funds \$ 10,282,038

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.

Capital purchases	2,098,874
Depreciation expense	(2,260,651)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	23,379
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Change in Net Position of Governmental Activities	\$ 10,143,640
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See Notes to Financial Statements.

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CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Capital Area Council of Governments (CAPCOG) is a voluntary association of local government units created under Chapter 391 of the Texas Local Government Code.

CAPCOG has been designated as State Planning Region 12 located in central Texas with the stated purpose of improving health, safety, and the general welfare of their citizens and to plan for the future development of the region. It does not have stockholders or equity holders and is not subject to income taxes. The region served includes Bastrop, Blanco, Burnet, Caldwell, Fayette, Hays, Lee, Llano, Travis and Williamson counties of Texas.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in CAPCOG's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether CAPCOG is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that CAPCOG's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The employees' pension plan is a defined contribution plan, which does not meet the GASB criteria for inclusion. Accordingly, the employees' pension plan is not included in CAPCOG's financial statements.

Capital Area Emergency Communication District

The Capital Area Emergency Communication District (CAECD) has been included in the reporting entity as a blended component unit. The CAECD was established in 2013 by local governments in State Planning Region 12 under Chapter 772, Health and Safety Code, Subchapter G. CAECD oversees 9-1-1 services to local governments in State Planning Region 12. The Board of Directors of CAPCOG serves as CAECD's Board of Managers charged with determining funding sources, setting governing policy, appointing a technical advisory committee, adopting a budget, and staffing the district. CAECD is responsible for managing revenue collected from state set fees for land line and wireless phones. CAECD is included in CAPCOG's reporting entity because of the significance of their operational and financial relationship with CAPCOG. The Board of Directors of CAPCOG functions as CAECD's Board and is either able to impose its will on them or a financial benefit/burden exists.

Capital Area Economic Development District

The Capital Area Economic Development District (CAEDD), a nonprofit corporation, has been included in the reporting entity as a blended component unit. CAEDD was established in 1989 by local governments in State Planning Region 12 under section 403 of the Public Works and Economic Development Act of 1965. CAEDD serves the State Planning Region 12 by providing services to promote economic growth in the region. The Board of Directors of CAEDD must be appointed by the

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

Board of Directors of CAPCOG. CAEDD is responsible for managing revenue collected from grants and local government match dollars to promote economic growth. CAEDD is included in CAPCOG's reporting entity because of the significance of their operational and financial relationship with CAPCOG.

Capital Area Initiatives Foundation

The Capital Area Initiatives Foundation, a nonprofit organization exempt under Internal Revenue Code Section 501(c)3, is not financially accountable to CAPCOG and, therefore, is not considered a component unit.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. These statements include all activities of the primary government. The effect of interfund activity has been removed from these statements, if applicable. Governmental activities are normally supported by intergovernmental revenues.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about CAPCOG's funds including its blended component units. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

CAPCOG reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal source of revenues is intergovernmental revenues. Expenditures include general government costs. The general fund is always considered a major fund for reporting purposes.

The *special revenue funds* are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. The special revenue funds include the aging fund, emergency communication fund, criminal justice fund, economic development fund, rural affairs fund, emergency management fund, and environmental quality fund. The aging, the Texas Commission Environmental Quality (TCEQ), housing and urban development, and CAECD

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

special revenue funds are considered major funds for reporting purposes. The remaining special revenue funds are considered nonmajor.

During the course of operations, CAPCOG has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, CAPCOG considers revenues to be available if they are 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. General capital asset acquisitions are reported as expenditures in governmental funds.

Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by CAPCOG.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

CAPCOG's cash and cash equivalents are considered to be cash on hand, demand deposits and investment pools with original maturities of three months or less from the date of acquisition.

CAPCOG maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, CAPCOG reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

CAPCOG has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, CAPCOG is authorized to invest in the following:

- Direct obligations of the U.S. government
- Money market mutual funds that meet certain criteria
- Collateralized certificates of deposits and share certificates
- Statewide investment pools

3. Receivables

Receivables are comprised of grants due from other governments, membership dues, tuition fees, employee travel advances, and other miscellaneous receivables. Balances in receivables accounts are expected to be collected within one year.

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, which include property, equipment, and leasehold improvements, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by CAPCOG as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three 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 at the

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. CAPCOG does not capitalize net interest cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of assets are not capitalized.

Property, equipment, and leasehold improvements of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Furniture	3 years
Office and computer equipment	5 years
Emergency communications equipment	5 years
Leasehold improvements	10 years (lease term)

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. CAPCOG has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. CAPCOG has no items that qualify for reporting in this category.

7. Compensated Absences

It is CAPCOG's policy to permit employees in permanent, full-time positions to accumulate earned but unused vacation, sick, and compensatory time. Earned time that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay for it. Amounts of vested or accumulated leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

Sometimes CAPCOG will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is CAPCOG's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. CAPCOG itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of CAPCOG's highest level of decision-making authority. The Executive Committee on Opinion Letter is the highest level of decision-making authority for CAPCOG that can, by a adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by CAPCOG for specific purposes but do not meet the criteria to be classified as committed. The Executive Committee may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

12. CAPCOG Cash Match Allocation

In accordance with terms and provisions of the various grant contracts, CAPCOG is required to provide a specific percentage of local matching funds to support some of the grant programs.

13. Local In-Kind Contributions

Personnel, goods, and services contributed by subcontractors and local governments are recorded as revenue when they serve as the matching funds required under the provisions of the grant. Offsetting charges of equal amounts are recorded as expenditures of the appropriate grant project.

The value assigned to personnel services of volunteers is based upon the rates paid for similar work in other state and local governments or on the federal minimum wage. The value assigned for use of space is based on the estimated fair market value of the space.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

14. Indirect Cost Rate

Administrative costs are recorded in the general fund as indirect costs in CAPCOG's accounting system and allocated to elements of the special revenue funds based upon a calculated indirect cost rate. Indirect costs are defined by Office of Management and Budget (OMB) *Circular A-87, Attachment A* as "costs (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved." CAPCOG's indirect cost rate is based upon prior cost experience, documented by a cost allocation plan and is submitted to a cognizant federal agency in accordance with the provisions of OMB *Circular A-87*. It is CAPCOG's policy to use this allocation plan to establish a fixed rate with carried forward, which is used for billing purposes during CAPCOG's succeeding fiscal year.

CAPCOG utilizes the modified direct expense method for allocation indirect costs. Modified direct expenses for the purposes of the indirect cost plan are defined as all direct expenses, less capital and contractual expenses exceeding \$15,000 per contract. The first \$15,000 of each sub-grant administered by CAPCOG is also included in the calculation of modified direct expenses. This methodology is allowed under OMB *Circular A-87*.

15. Unearned Revenue

Occasionally, grant funding and other revenue which has been received is earned after year end. The grant agreement with the Texas Commission on Environmental Quality for Solid Waste Management and Air Quality extends past September 30, 2014, for which \$461,927 was received prior to year end. Advance tuition payments in the amount of \$61,700 in the criminal justice fund have been treated as unearned revenue and will be recognized in fiscal year 2015 when basic peace officer courses are delivered to students.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

CAPCOG prepares annual operating budgets based on expected revenues from various state and federal grantor agencies. The grants relate to specific programs that contemplate revenues and expenditures over the lives of each program and generally have funding periods different from the budget year. The annual budget, which is approved by CAPCOG's Executive Committee (the "Committee"), is based on estimates of the portions of the various programs that will be completed during the fiscal year. Additionally, grants applied for may not be funded, other grants not anticipated at the time that the budget is prepared may be obtained and funded during the budget year, or supplemental funding may be received for existing grants. As a result, the actual revenues and expenditures may vary substantially from original budget estimates.

The budgets are reviewed and approved by the Committee, but are not legally adopted budgets or appropriations as defined in *Governmental Accounting and Financial Reporting Principles, Statement 1*. Accordingly, comparative budget and actual results are not presented in the basic financial statements.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2014, CAPCOG had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 13,023,567	0.00
Total fair value	\$ 13,023,567	
Portfolio weighted average maturity		0.00

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, CAPCOG’s deposits may not be returned to it. CAPCOG’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. At year end, market values of CAPCOG’s pledged securities and FDIC insurance exceeded bank balances.

Credit risk. CAPCOG’s investment policy limits investments in no-load money market mutual funds rated as to investment quality not less than “AAA” by a nationally recognized investment rating firm. As of September 30, 2014, CAPCOG’s investments in TexPool were rated “AAAm” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency. More specifically, the investments in U.S. agencies held by CAPCOG as of September 30, 2014 consist of a variety of bonds and discount notes issued by the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rate TexPool “AAAm”. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

B. Capital Assets

A summary of changes in capital assets at year end is as follows:

	Beginning Balances	Increases	(Decreases)	Ending Balances
Governmental Activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 16,583,843	\$ 2,098,874	\$ -	\$ 18,682,717
Leasehold improvements	1,637,373	-	-	1,637,373
Total capital assets being depreciated	18,221,216	2,098,874	-	20,320,090
Less accumulated depreciation for:				
Furniture and equipment	(13,278,568)	(2,096,914)	-	(15,375,482)
Leasehold improvements	(1,146,159)	(163,737)	-	(1,309,896)
Total accumulated depreciation	(14,424,727)	(2,260,651)	-	(16,685,378)
Total capital assets, net	3,796,489	(161,777)	-	3,634,712
Governmental Activities				
Capital Assets, Net	\$ 3,796,489	\$ (161,777)	\$ -	\$ 3,634,712

Depreciation was charged to governmental functions as follows:

General government	\$ 236,254
Emergency communications	1,998,610
Criminal justice	11,492
Homeland security	4,579
Environmental quality	9,716
Total	\$ 2,260,651

C. Commitments

CAPCOG leases office space and certain equipment under several long-term operating leases. CAPCOG entered into a ten-year office space lease with payments beginning April 1, 2007. At September 30, 2014, CAPCOG was committed for rental payments as follows:

Fiscal Year Ended	Office Amounts
2015	\$ 520,494
2016	541,739
2017	275,118
Total	\$ 1,337,351

Lease expenses for office space, furniture and telephone equipment were \$495,000 for the year ended September 30, 2014.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

D. Interfund Transactions

The composition of interfund balances as of year end was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Due From Other Funds</u>
General	Aging	\$ 748,609
General	TCEQ	115,445
General	Nonmajor funds	390,719
Communication District	General	166,702
Nonmajor funds	General	142,201
		<u>\$ 1,563,676</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

E. Accrued Compensated Absences

Employees in permanent, full-time positions earn eight hours of vacation with pay and one day of sick leave for each month of service for the first three years of employment and ten hours per month of vacation thereafter. Employees may accumulate up to 30 days of vacation and six days of sick leave (after three years of service) that are vested in the event of termination.

Accrued vacation and sick leave included in accrued employee benefits was \$174,211 at September 30, 2014.

IV. OTHER INFORMATION

A. Risk Management

CAPCOG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which CAPCOG participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. CAPCOG has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. CAPCOG has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Delegate Agency Costs and Contingent Liabilities

For grants classified as secondary recipient grants, CAPCOG contracts with local governments and other local delegate agencies to perform the specific services set forth in the grant agreements. CAPCOG disburses grant funds to the delegate agencies based on monthly expenditure reports received from each delegate agency.

Each delegate agency is required to comply with federal and state audit requirements. CAPCOG requires each of its delegate agencies to submit audit reports. If such audits disclose expenditures not in accordance with the terms of the grants, the grantor agency could disallow the costs and require reimbursement of the disallowed costs either from CAPCOG or the delegate agency. CAPCOG generally has the right of recovery from the delegate agency.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although CAPCOG expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plans

CAPCOG provides pension benefits for all of its full-time employees through a defined contribution plan, which qualifies as a pension plan with 401(k) profit sharing provisions (the "Plan"). In a defined contribution plan, benefits depend solely on annual contributions by CAPCOG, voluntary contributions by employees, length of time an employee participates in the Plan, and investment earnings. The Plan covers all employees of CAPCOG immediately upon beginning their first full month of service.

Employees are fully vested immediately to the extent of their voluntary contributions, which may be one to 25 percent of their compensation. CAPCOG's contributions and related interest earned for each employee are fully vested after five years without forfeiture or break in service. Employees are vested 20 percent per year of service.

CAPCOG's total payroll in fiscal year 2014 was \$3,037,110. During the year, CAPCOG accrued \$210,748 (7.4 percent of total base salaries) to the Plan, and its employees made contributions of \$164,549 (6.3 percent of total base salaries). During the prior year, CAPCOG accrued 13.7 percent of total base salaries to the Plan.

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OTHER SUPPLEMENTARY INFORMATION

CAPITAL AREA COUNCIL OF GOVERNMENTS

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS BY FUNDING SOURCE

September 30, 2014

	Economic Development Administration	Texas Department of Rural Affairs	Criminal Justice Division	Division of Emergency Management
<u>Assets</u>				
Receivables	\$ -	\$ 10,515	\$ 43,748	\$ -
Due from grantor agencies	76,953	-	85,812	227,631
Due from other funds	-	-	142,201	-
Prepaid items	-	-	611	-
Total Assets	\$ 76,953	\$ 10,515	\$ 272,372	\$ 227,631
<u>Liabilities</u>				
Due to other funds	\$ 76,953	\$ 10,515	\$ -	\$ 227,631
Unearned revenue	-	-	61,700	-
Total Liabilities	76,953	10,515	61,700	227,631
<u>Fund Balances</u>				
Restricted	-	-	210,672	-
Total Fund Balances	-	-	210,672	-
Total Liabilities and Fund Balances	\$ 76,953	\$ 10,515	\$ 272,372	\$ 227,631

<u>Environmental Protection Agency</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ -	\$ 54,263
75,474	465,870
-	142,201
146	757
<u>\$ 75,620</u>	<u>\$ 663,091</u>
\$ 75,620	\$ 390,719
-	61,700
<u>75,620</u>	<u>452,419</u>
-	210,672
-	210,672
<u>\$ 75,620</u>	<u>\$ 663,091</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS BY FUNDING SOURCE

For the Year Ended September 30, 2014

	<u>Economic Development Administration</u>	<u>Texas Department of Rural Affairs</u>	<u>Criminal Justice Division</u>	<u>Division of Emergency Management</u>
Revenues				
Federal grants	\$ 152,136	\$ -	\$ -	\$ 396,078
State grants	-	-	220,547	-
Contract service revenue	-	10,513	94,601	-
Tuition fees	-	-	232,292	-
Cash match allocation	116,786	-	-	-
Total Revenues	<u>268,922</u>	<u>10,513</u>	<u>547,440</u>	<u>396,078</u>
Expenditures				
Current:				
Personnel services	66,807	7,999	281,739	224,614
Contractual services	65,646	-	66,674	1,146
Travel	726	-	802	1,131
Supplies and materials	1,156	-	13,984	-
Office space	-	-	-	1,464
Miscellaneous	61,904	284	58,649	85,784
Internal expense allocation	16,852	-	-	60,779
Indirect cost allocation	24,018	2,230	111,668	21,160
Third party matching	31,813	-	-	-
Total Expenditures	<u>268,922</u>	<u>10,513</u>	<u>533,516</u>	<u>396,078</u>
Net Change in Fund Balances	-	-	13,924	-
Beginning fund balances	-	-	196,748	-
Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 210,672</u>	<u>\$ -</u>

<u>Environmental Protection Agency</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 154,382	\$ 702,596
-	220,547
-	105,114
-	232,292
<u>238,913</u>	<u>355,699</u>
<u>393,295</u>	<u>1,616,248</u>
5,560	586,719
-	133,466
-	2,659
-	15,140
-	1,464
148,694	355,315
-	77,631
128	159,204
<u>238,913</u>	<u>270,726</u>
<u>393,295</u>	<u>1,602,324</u>
-	13,924
-	196,748
<u>\$ -</u>	<u>\$ 210,672</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

For the Year Ended September 30, 2014

	2014		2013
	Actual	Budget	Actual
Salaries	\$ 284,125	\$ 286,642	\$ 299,742
Benefits	134,083	140,554	138,166
	<u>418,208</u>	<u>427,196</u>	<u>437,908</u>
Accounting/auditing	18,687	18,700	28,882
Communications	4,733	6,522	4,726
Insurance	8,965	17,000	7,416
Legal	111	3,000	1,050
Postage	5,234	5,000	6,602
Printing	1,288	500	1,919
Photocopy expense	12,076	12,000	13,631
Contractual services	-	1,500	-
Professional services	-	1,500	7
Advertising	75	500	25
Professional development	13,729	3,350	2,997
Meeting expense		3,500	3,261
Subscriptions dues	32,653	29,900	21,664
Travel	5,757	16,500	6,431
Office space	53,098	58,650	48,348
Equipment maintenance	-	500	-
Consumable supplies	7,942	8,000	5,378
Equipment lease	21,320	22,000	28,427
Personnel payroll services	9,241	16,809	11,426
Computer support services	11,696	15,079	12,452
Indirect carry forward	-	29,037	-
Total Indirect Costs	<u>\$ 624,813</u>	<u>\$ 696,743</u>	<u>\$ 642,549</u>
Indirect Cost Allocation Base	<u>\$ 8,808,276</u>	<u>\$ 7,548,284</u>	<u>\$ 6,749,425</u>
Indirect Rate	<u>7.09%</u>	<u>9.23%</u>	<u>9.52%</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF FRINGE BENEFITS

For the Year Ended September 30, 2014

	2014		2013
	Actual	Budget	Actual
Payroll taxes	\$ 224,971	\$ 235,139	\$ 219,561
Group insurance	378,184	480,998	360,493
Workers' compensation insurance	8,075	7,375	8,381
Unemployment insurance	12,996	9,221	12,902
Retirement contribution	210,264	216,389	191,776
Other	-	29,500	2,481
Release time	400,333	354,659	358,633
Total Fringe Benefits	\$ 1,234,823	\$ 1,333,281	\$ 1,154,227
Total wages	3,037,110	3,073,712	2,933,286
Release time	(400,333)	(354,659)	(358,633)
Basis for Allocation	\$ 2,636,777	\$ 2,719,053	\$ 2,574,653
Employee Benefit Rate	46.83%	49.03%	44.83%

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***FEDERAL AND
STATE AWARDS***

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

May 15, 2015

To the Executive Committee Members of the
Capital Area Council of Governments:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Capital Area Council of Governments (CAPCOG) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise CAPCOG's basic financial statements and have issued our report thereon dated May 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CAPCOG'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 CAPCOG's internal control. Accordingly, we do not express an opinion on the effectiveness of CAPCOG'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of CAPCOG's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CAPCOG’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* or the *State of Texas Single Audit Circular*.

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 CAPCOG’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular* .in considering CAPCOG’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, THE STATE OF TEXAS SINGLE AUDIT CIRCULAR AND SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

May 15, 2015

To the Executive Committee Members of the
Capital Area Council of Governments:

Report on Compliance for Each Major Federal Program

We have audited the Capital Area Council of Government's (CAPCOG) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of CAPCOG's major federal or state programs for the year ended September 30, 2014. CAPCOG'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 CAPCOG'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 *State of Texas Single Audit Circular*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 program occurred. An audit includes examining, on a test basis, evidence about CAPCOG'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 CAPCOG's compliance.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



Opinion on Each Major Federal Program

In our opinion, CAPCOG 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, 2014.

Report on Internal Control Over Compliance

Management of CAPCOG 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 CAPCOG's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 CAPCOG's internal control over compliance.

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

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

Report on Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of CAPCOG as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise CAPCOG's basic financial statements. We have issued our report thereon dated May 15, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedules of expenditures of federal and state awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and the *State of Texas Single Audit Circular* and are not required parts of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 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 schedules of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*B*ELT *H*ARRIS *P* ECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

CAPITAL AREA COUNCIL OF GOVERNMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2014

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior findings.

CAPITAL AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of CAPCOG.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the basic financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal and state award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for CAPCOG are reported in Part C of this schedule.
7. The programs included as major programs included:

<u>Program</u>	<u>CFDA Number</u>
Department of Health and Human Services Aging Cluster	93.044, 93.045, 93.053
National Family Caregiver Support	93.052
Sustainable Communities	14.703
Regional Peace Officer Training	N/A
Texas Department on Aging and Disability Services General Revenue	N/A

8. The threshold for distinguishing Type A and B programs was \$300,000 for federal and state amounts.
9. CAPCOG did classify as a low-risk auditee in the context of OMB Circular A-133.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None noted

C. FINDINGS – FEDERAL AND STATE AWARDS

None noted

CAPITAL AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2014

Grantor/ Program Title	CFDA Number	Grant/Contract Number	Expenditures
U.S. Department of Health and Human Services			
<i>Pass-Through Texas Department on Aging and Disability Services</i>			
Title III, Part B Grants for Supportive Services	93.044	Title III-B	\$ 1,164,601
Title III, Part C Nutrition Services	93.045	Title III-C1	813,242
Title III, Part C Nutrition Services	93.045	Title III-C2	1,075,019
Title III, Part D Disease Prevention and Health Promotion Services	93.043	Title III-D	60,587
National Family Caregiver Support, Title III, Part E	93.052	Title III-E	519,035
Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation (EAP)	93.041	Title VII-EAP	14,771
Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals (OAG)	93.042	Title VII-OAG	60,745
Nutrition Services Incentive Program (NSIP)	93.053	NSIP	362,245
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	CMS Basic	60,662
Medicare Enrollment Assistance Program	93.071	ATRA-MIPPA	20,252
Money Follows the Person Rebalancing Demonstration	93.791	OMB MFPD	48,943
Total U.S. Department of Health and Human Services			4,200,102
U.S. Department of Commerce			
Areawide Economic Development	11.302	08-83-04749	47,498
Regional Innovative Clusters Evaluation	11.307	08-06-04774	104,638
Total U.S. Department of Commerce			152,136
U.S. Department of Homeland Security			
<i>Pass-through Texas Department of Public Safety</i>			
State Homeland Security Program	97.073	EMW-2011-SS-00019	37,078
State Homeland Security Program	97.067	EMW-2011-SS-00019	2,450
State Homeland Security Program	97.073	EMW-2012-SS-00018-S01	5,586
State Homeland Security Program	97.073	EMW-2012-SS-00018-S01	216,824
State Homeland Security Program	97.067	EMW-2013-SS-00045	5,044
State Homeland Security Program	97.067	EMW-2013-SS-00045	129,096
Total U.S. Department of Homeland Security			396,078
U.S. Department of Housing and Urban Development			
Sustainable Communities	14.703	SB-96666201-0	870,122
Total U.S. Department of Housing and Urban Development			870,122
Environmental Protection Agency			
Clean Diesel	66.039	00F60801	154,827
Total Environmental Protection Agency			154,827
Total Federal Awards			\$ 5,773,265

CAPITAL AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended September 30, 2014

<u>Grantor/ Program Title</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>
Texas Department on Aging and Disability Services		
State General Revenue Title III-E Match	N/A	\$ 52,918
State General Revenue - Other	N/A	158,118
State General Revenue OMB Services	N/A	971
Total Texas Department on Aging and Disability Services		<u>212,007</u>
Office of the Governor Criminal Justice Division		
Regional Peace Officer Training	SF-12-A10-15444-13	220,547
Total Office of the Governor Criminal Justice Division		<u>220,547</u>
Texas Commission on Environmental Quality		
Regional Solid Waste Management	582-14-40574	199,153
Regional Air Quality Planning	582-11-11220	146,093
Regional Air Quality Planning	582-14-40052	227,502
Regional Air Quality Planning	582-13-31912	11,898
Total Texas Commission on Environmental Quality		<u>584,646</u>
Total State Awards		<u>\$ 1,017,200</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2014

1. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of federal and state awards include the federal and state grant activity of CAPCOG, and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.