

*ANNUAL FINANCIAL REPORT*

of the

**CAPITAL AREA COUNCIL  
OF GOVERNMENTS**

For the Year Ended  
September 30, 2010

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# CAPITAL AREA COUNCIL OF GOVERNMENTS

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## INDEPENDENT AUDITORS' REPORT

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

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, 2010, which collectively comprise CAPCOG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CAPCOG's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 of America. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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, each major fund, and the aggregate remaining fund information of CAPCOG as of September 30, 2010, and the respective changes in financial position, thereof, 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 on April 11, 2011 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 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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

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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 CAPCOG's basic financial statements. The combining fund statements and schedules 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining fund statements and schedules 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.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
April 11, 2011

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

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# CAPITAL AREA COUNCIL OF GOVERNMENTS

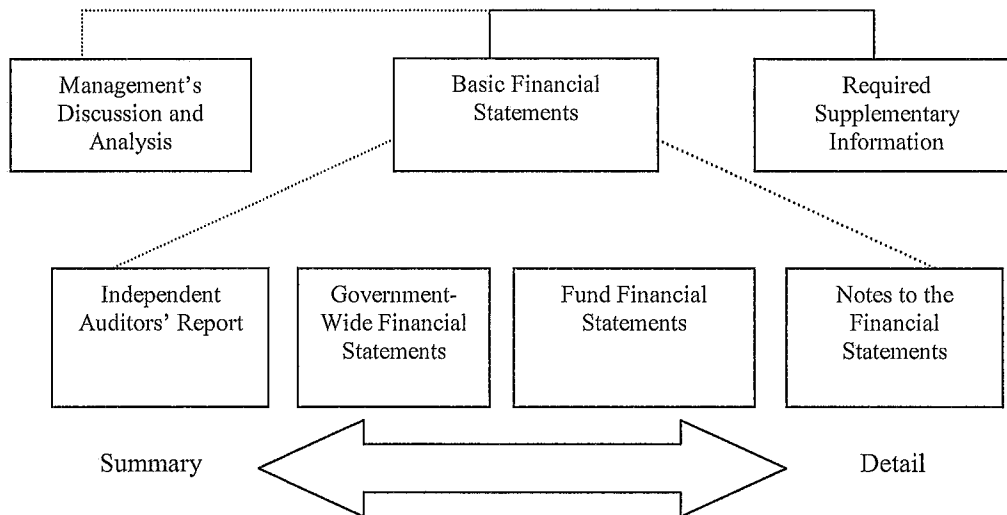
## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2010

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. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of CAPCOG's activities. Governmental Accounting Standards Board ("GASB") Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with CAPCOG's financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT

#### Components of the Financial Section



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

#### 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 Assets 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 Assets presents information on all of CAPCOG's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of CAPCOG is improving or deteriorating.

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2010

The Statement of Activities presents information showing how CAPCOG's net assets changed during the most recent year. All changes in the net assets are reported as soon as the underlying event giving rise to the change 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 Assets and the Statement of Activities present one class of activities:

1. Governmental Activities – CAPCOG's basic services are reported here, including emergency communications, criminal justice, aging and general government. Grants and contributions, 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, emergency communications fund, and environmental quality fund, which are considered to be major funds, as well as the total for the remaining special revenue funds, which are nonmajor funds for reporting purposes.

#### 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 can be found after the financial statements within this report.

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2010

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of CAPCOG's financial position. For CAPCOG, assets exceed liabilities by \$6,470,172 as of year end in the primary government.

The largest portion of CAPCOG's net assets reflects its investments in capital assets (infrastructure, emergency communications software, equipment). CAPCOG uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

#### Statement of Net Assets:

	Governmental Activities		Total Dollar Change
	2010	2009	2010-2009
Current and other assets	\$ 4,700,879	\$ 6,137,333	\$ (1,436,454)
Capital assets, net	5,699,830	3,507,543	2,192,287
<b>Total Assets</b>	<b>10,400,709</b>	<b>9,644,876</b>	<b>755,833</b>
Other liabilities	3,930,537	5,525,830	(1,595,293)
<b>Total Liabilities</b>	<b>3,930,537</b>	<b>5,525,830</b>	<b>(1,595,293)</b>
Net assets:			
Invested in capital assets, net of related debt	5,699,830	3,507,543	2,192,287
Unrestricted	770,342	611,503	158,839
<b>Total Net Assets</b>	<b>\$ 6,470,172</b>	<b>\$ 4,119,046</b>	<b>\$ 2,351,126</b>

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2010

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

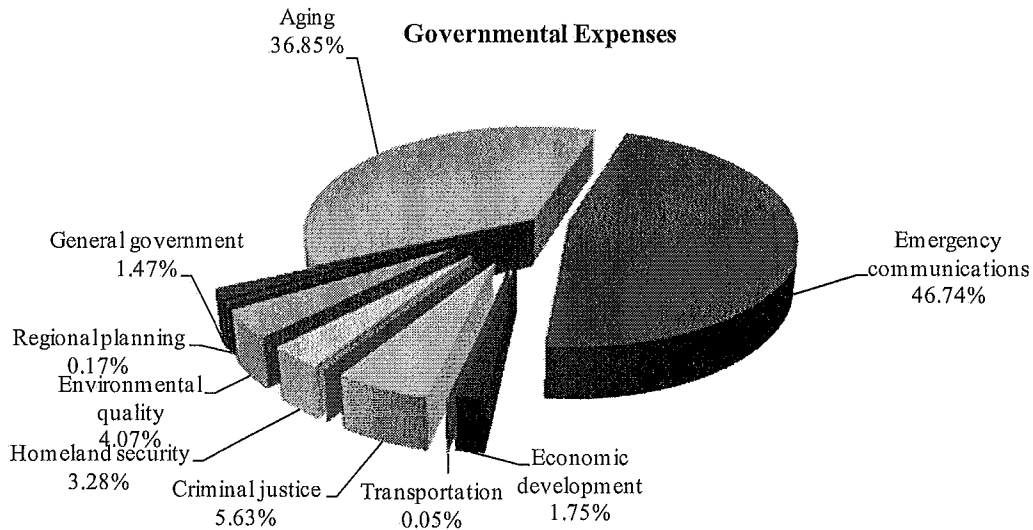
	Governmental Activities		Total Dollar Change
	2010	2009	2010-2009
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 177,081	\$ 146,323	\$ 30,758
Operating grants and contributions	22,021,215	20,686,435	1,334,780
General revenues:			
Membership dues	215,738	212,975	2,763
Contract service revenue	471,907	900,954	(429,047)
Interest income	63,524	225,493	(161,969)
Miscellaneous	3,454	17,508	(14,054)
<b>Total Revenues</b>	22,952,919	22,189,688	763,231
<b>Expenses</b>			
General government	303,094	1,139,301	(836,207)
Aging	7,591,461	7,242,292	349,169
Emergency communications	9,629,012	9,830,001	(200,989)
Economic development	360,666	120,027	240,639
Transportation	10,342	13,553	(3,211)
Criminal justice	1,159,305	848,402	310,903
Health	-	77,715	(77,715)
Homeland security	675,066	557,207	117,859
Environmental quality	837,896	1,431,227	(593,331)
Regional planning	34,951	141,908	(106,957)
<b>Total Expenses</b>	20,601,793	21,401,633	(799,840)
<b>Change in Net Assets</b>	2,351,126	788,055	1,563,071
Beginning Net Assets	4,119,046	3,330,991	788,055
<b>Ending Net Assets</b>	\$ 6,470,172	\$ 4,119,046	\$ 2,351,126

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2010

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, 2010, revenues from governmental activities totaled \$22,952,919, an increase of \$763,231 over the prior year. The majority of this change is due to an increase in operating grants and contributions.

As of the end of the fiscal year, expenses for governmental activities totaled \$20,601,793 which represents a decrease of \$810,447 over the prior year. Much of this decrease is due to mapping projects in the general fund being completed during 2009.

### 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 \$929,299. This includes an increase of \$167,445 over the prior year.

The general fund reported a fund balance of \$761,854, an increase of \$97,611 over the prior year. In the aging, emergency communication and environmental quality funds, revenues matched expenditures for the year, therefore no change in fund balance is reported.

### CAPITAL ASSETS

At the end of the year, CAPCOG's governmental activities funds had invested \$4,018,891, net of depreciation, in a variety of capital assets, including equipment for emergency communications. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34.

# **CAPITAL AREA COUNCIL OF GOVERNMENTS**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued***

September 30, 2010

For more detailed information on changes in capital assets, please refer to the notes to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Capital Area Council of Governments 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 upcoming year of 2011, CAPCOG increased estimated revenue by \$1,634,511. This was primarily caused by funding increases by the State of Texas through the Commission on State Emergency Communications and the Federal government through the Texas Department of Aging and Disability Services. Expenditures for grant-based programs are expected to rise in an amount consistent with the increased funding for services.

### **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.

***FINANCIAL STATEMENTS***

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# CAPITAL AREA COUNCIL OF GOVERNMENTS

## STATEMENT OF NET ASSETS

September 30, 2010

	<u>Primary Government Governmental Activities</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 2,949,280
Receivables	57,295
Due from grantor agencies	1,650,045
Other assets	44,259
	<u>4,700,879</u>
Capital assets:	
Net depreciable capital assets	5,699,830
<b>Total Assets</b>	<u>10,400,709</u>
<b><u>Liabilities</u></b>	
Accounts payable	1,388,924
Employee retirement payable	156,726
Accrued employee benefits	158,957
Unearned revenues	2,225,930
<b>Total Liabilities</b>	<u>3,930,537</u>
<b><u>Net Assets</u></b>	
Invested in capital assets	5,699,830
Unrestricted	770,342
<b>Total Net Assets</b>	<u>\$ 6,470,172</u>

See Notes to Financial Statements.

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Expenses	Indirect and Internal Cost Allocation	Expenses After Indirect and Internal Cost Allocation
<b>Primary Government:</b>			
<b>Governmental Activities</b>			
General government	\$ 1,634,375	\$ (1,331,281)	\$ 303,094
Aging	7,251,692	339,769	7,591,461
Emergency communication	9,049,596	579,416	9,629,012
Economic development	323,901	36,765	360,666
Transportation	10,448	(106)	10,342
Criminal justice	997,008	162,297	1,159,305
Homeland security	574,667	100,399	675,066
Environmental quality	725,155	112,741	837,896
Regional planning	34,951	-	34,951
<b>Total Governmental Activities</b>	<b>20,601,793</b>	<b>-</b>	<b>20,601,793</b>
<b>Total Primary Government</b>	<b>\$ 20,601,793</b>	<b>\$ -</b>	<b>\$ 20,601,793</b>

**General Revenues:**

- Membership dues
- Contract service revenue
- Miscellaneous
- Interest income

**Total General Revenues**

**Change in Net Assets**

Beginning net assets

**Ending Net Assets**

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 Assets</u>
		<u>Governmental</u>
		<u>Activities</u>
\$ 51,514	\$ (7,003)	\$ (258,583)
-	7,585,893	(5,568)
-	11,707,345	2,078,333
-	360,666	-
-	(1,912)	(12,254)
125,567	831,000	(202,738)
-	675,066	-
-	835,209	(2,687)
-	34,951	-
<u>177,081</u>	<u>22,021,215</u>	<u>1,596,503</u>
<u>177,081</u>	<u>22,021,215</u>	<u>1,596,503</u>

215,738
471,907
63,524
3,454
<u>754,623</u>
2,351,126
4,119,046
<u>\$ 6,470,172</u>

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2010

	General	Aging	Emergency Communication	Environmental Quality
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 265,717	\$ -	\$ 2,586,245	\$ 97,318
Receivables	25,759	-	20,132	-
Due from grantor agencies	-	923,695	191,964	145,354
Due from other funds	1,467,836	-	-	45,062
Prepaid items	34,169	1,687	3,359	1,427
<b>Total Assets</b>	<b>\$ 1,793,481</b>	<b>\$ 925,382</b>	<b>\$ 2,801,700</b>	<b>\$ 289,161</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 745,695	\$ 107	\$ 641,930	\$ -
Employee retirement payable	156,726	-	-	-
Due to other funds	-	925,275	373,351	5,548
Deferred revenue	31,595	-	1,786,419	283,613
<b>Total Liabilities</b>	<b>934,016</b>	<b>925,382</b>	<b>2,801,700</b>	<b>289,161</b>
<b><u>Fund Balances</u></b>				
Unreserved and undesignated	859,465	-	-	-
<b>Total Fund Balances</b>	<b>859,465</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,793,481</b>	<b>\$ 925,382</b>	<b>\$ 2,801,700</b>	<b>\$ 289,161</b>

Adjustments for the Statement of Net Assets:

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 Assets of Governmental Activities**

See Notes to Financial Statements.

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 2,949,280
11,404	57,295
389,032	1,650,045
-	1,512,898
3,617	44,259
<u>\$ 404,053</u>	<u>\$ 6,213,777</u>
\$ 1,192	\$ 1,388,924
-	156,726
208,724	1,512,898
124,303	2,225,930
<u>334,219</u>	<u>5,284,478</u>
69,834	929,299
<u>69,834</u>	<u>929,299</u>
<u>\$ 404,053</u>	\$ 6,213,777

13,854,412  
(8,154,582)

(158,957)  
\$ 6,470,172

**CAPITAL AREA COUNCIL OF GOVERNMENTS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2010

	<u>General</u>	<u>Aging</u>	<u>Emergency Communication</u>	<u>Environmental Quality</u>
<b>Revenues</b>				
Federal grants	\$ -	\$ 4,200,123	\$ -	\$ 13,102
State grants	-	161,688	11,707,345	816,097
Membership dues	215,738	-	-	-
Local match	(93,801)	107,236	-	-
Miscellaneous	57,956	5,568	-	-
Interest	1,359	-	2,095	-
Tuition fees	51,514	-	-	-
Contract service revenue	187,081	-	-	-
Third party applied	-	3,116,846	-	6,010
Contractual local match	86,798	-	-	-
<b>Total Revenues</b>	<u>506,645</u>	<u>7,591,461</u>	<u>11,709,440</u>	<u>835,209</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	409,034	-	-	-
Aging	-	7,591,461	-	-
Emergency communications	-	-	11,709,440	-
Economic development	-	-	-	-
Transportation	-	-	-	-
Criminal justice	-	-	-	-
Homeland security	-	-	-	-
Environmental quality	-	-	-	835,209
Regional planning	-	-	-	-
<b>Total Expenditures</b>	<u>409,034</u>	<u>7,591,461</u>	<u>11,709,440</u>	<u>835,209</u>
<b>Excess of Revenues Over Expenditures</b>	97,611	-	-	-
Beginning fund balances	761,854	-	-	-
<b>Ending Fund Balances</b>	<u>\$ 859,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 896,885	\$ 5,110,110
831,000	13,516,130
-	215,738
51,886	65,321
-	63,524
-	3,454
125,567	177,081
284,826	471,907
120,000	3,242,856
-	86,798
2,310,164	22,952,919
-	409,034
-	7,591,461
-	11,709,440
360,666	360,666
10,342	10,342
1,159,305	1,159,305
675,066	675,066
-	835,209
34,951	34,951
2,240,330	22,785,474
69,834	167,445
-	761,854
\$ 69,834	\$ 929,299

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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, 2010**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$	167,445
<p>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.</p>		
Capital purchases		4,018,891
Depreciation expense		(1,826,604)
<p>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.</p>		
Compensated absences		(8,606)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u><u>2,351,126</u></u></b>

See Notes to Financial Statements.

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# CAPITAL AREA COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS

September 30, 2010

### 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.

CAPCOG has presented the activity of the Capital Area Economic Development District as a blended component unit within the accompanying financial statements. The Capital Area Initiatives Foundation, a nonprofit organization exempt under Internal Revenue Code Section 501(c)3, is not financially accountable to CAPCOG and is, therefore, not considered a component unit.

#### B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of CAPCOG’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of CAPCOG’s activities.
- A change in the fund financial statements to focus on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Assets and a Statement of Activities. It

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2010

requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

### C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about CAPCOG as a whole. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements, if applicable. Governmental activities are normally supported by intergovernmental revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of CAPCOG’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as membership dues and investment earnings, are presented as general revenues.

Financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of CAPCOG are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

#### Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

#### General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues are intergovernmental revenues. Expenditures include general government costs.

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2010

### Special Revenue Funds

The special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted or designated by the Committee to expenditures for specified purposes. The special revenue funds include the aging fund, emergency communication fund, criminal justice fund, economic development fund, rural affairs fund, emergency management fund, environmental quality fund and federal highway administration. The aging, emergency communications, and environmental quality special revenue funds are considered major funds for reporting purposes. The remaining special revenue funds are considered nonmajor.

### **D. Measurement Focus and Basis of Accounting**

The government-wide Statements of Net Assets and Statements of Activities are accounted for on a flow of economic resources measurement focus, which is the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

CAPCOG utilizes the modified accrual basis of accounting in the governmental fund types. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, CAPCOG considers revenues available if they are collected within 60 days of the end of the current period.

Grants and contributions associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

### **E. Assets, Liabilities, and Net Assets or Fund Equity**

#### **1. Deposits and Investments**

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

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

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2010

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 Governmental Code. In summary, CAPCOG is authorized to invest in the following:

- Direct obligations of the U.S. government and State of Texas or their agencies or instrumentalities
- Fully collateralized certificates of deposit
- Collateralized mortgage obligations (CMOs)
- Commercial paper
- Fully collateralized repurchase agreements
- Investment pools

### 2. Receivables

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

### 3. 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.

### 4. 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 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)

# **CAPITAL AREA COUNCIL OF GOVERNMENTS**

## ***NOTES TO FINANCIAL STATEMENTS, Continued***

September 30, 2010

### **5. 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.

### **6. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Undesignated fund balances represent available balances for CAPCOG's future use.

### **7. 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.

### **8. 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.

### **9. 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.

### **10. 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 negotiated 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

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2010

plan to establish a provisional rate, which is used for billing purposes during CAPCOG's succeeding fiscal year. Upon the completion of an independent audit at the end of each fiscal year, the indirect cost rate is finalized.

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 \$10,000 per contract. The first \$10,000 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 and has been approved by CAPCOG's state cognizant agency.

### 11. 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 extends to August 31, 2011, for which \$238,405 was received prior to year end. Funding received from the Commission on State Emergency Communications in the amount of \$1,786,419 is shown as unearned revenue for payments received for operation of the regional 9-1-1 system for the first quarter of fiscal year 2011. Funds received for projects from the Division of Emergency Management and the Environmental Protection agency were \$43,726 and \$45,208, respectively. Advance tuition payments in the amount of \$80,577 in the criminal justice fund have been treated as unearned revenue and will be recognized in fiscal year 2011 when Basic Peace Officer courses are delivered to students. Additionally, the general fund has recognized \$31,595 in unearned revenue for the emergency notification system contract which begins October 1, 2011.

## 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 the 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

September 30, 2010

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

As of September 30, 2010, CAPCOG had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
External investment pools	\$ 2,886,230	0.00
Total fair value	<u>\$ 2,886,230</u>	
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.

CAPCOG invests in 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*

September 30, 2010

### B. Capital Assets

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

Governmental Activities:	Beginning Balances	Increases	(Decreases)	Ending Balances
Capital assets being depreciated:				
Furniture and equipment	\$ 8,198,148	\$ 4,018,891	\$ -	\$ 12,217,039
Leasehold improvements	1,637,373	-	-	1,637,373
Total capital assets being depreciated	<u>9,835,521</u>	<u>4,018,891</u>	<u>-</u>	<u>13,854,412</u>
Less accumulated depreciation for:				
Furniture and equipment	(5,836,767)	(1,662,867)	-	(7,499,634)
Leasehold improvements	(491,211)	(163,737)	-	(654,948)
Total accumulated depreciation	<u>(6,327,978)</u>	<u>(1,826,604)</u>	<u>-</u>	<u>(8,154,582)</u>
Total capital assets being depreciated, net	<u>3,507,543</u>	<u>2,192,287</u>	<u>-</u>	<u>5,699,830</u>
<b>Totals</b>	<u>\$ 3,507,543</u>	<u>\$ 2,192,287</u>	<u>\$ -</u>	<u>\$ 5,699,830</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 240,634
Emergency communications	1,583,283
Environmental quality	2,687
<b>Total</b>	<u>\$ 1,826,604</u>

### C. Commitments

CAPCOG leases office space and certain equipment under several long-term operating leases. CAPCOG entered into a new ten-year office space lease with payments beginning April 1, 2007. At September 30, 2010, CAPCOG was committed for rental payments as follows:

Fiscal Year Ended	Office Space	Office Furniture	Telephone Equipment	Total
2011	\$ 426,166	\$ 35,533	\$ 24,812	\$ 486,511
2012	446,561	2,961	4,135	453,657
2013	469,506	-	-	469,506
2014	495,000	-	-	495,000
2015	520,494	-	-	520,494
2016-2017	816,857	-	-	816,857
<b>Total</b>	<u>\$ 3,174,584</u>	<u>\$ 38,494</u>	<u>\$ 28,947</u>	<u>\$ 3,242,025</u>

Lease expenses for office space, furniture and telephone equipment were 462,717 for the year ended September 30, 2010.

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2010

### D. Interfund Transactions

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Due From Other Funds</u>
General government	Aging	\$ 925,275
General government	Emergency communication	373,351
General government	Environmental quality	5,548
General government	Nonmajor funds	163,662
Environmental quality	Nonmajor funds	45,062
		<u>\$ 1,512,898</u>

### 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 services 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 \$158,957 at September 30, 2010.

## 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.

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.

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2010

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. 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 services.

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% per year of service.

CAPCOG's total payroll in fiscal year 2010 was \$2,816,860. During the year, CAPCOG accrued \$210,444 (7.3 percent of total base salaries) to the plan, and its employees made contributions of \$192,757 (6.7 percent of total base salaries). During the prior year, CAPCOG accrued 7.2 percent of total base salaries to the plan.

### D. Restatement of Beginning Fund Balance

Beginning fund balance for the general fund has been restated to correct the accounting treatment applied to compensated absences. The result of the restatement is a reduction in accrued employee benefits at the fund level which increases fund balance for the general fund as shown below.

	<u>General</u>
Prior year ending fund balance as reported	\$ 611,503
Add reduction in accrued employee benefits	150,351
Restated beginning fund balance	<u><u>\$ 761,854</u></u>

***OTHER SUPPLEMENTARY INFORMATION***

**CAPITAL AREA COUNCIL OF GOVERNMENTS**  
**COMBINING BALANCE SHEET**  
**ALL SPECIAL REVENUE FUNDS BY FUNDING SOURCE**  
September 30, 2010

	Texas Department on Aging and Disability Services	Commission on State Emergency Communications	Economic Development Administration	Texas Department of Rural Affairs
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ -	\$ 2,586,245	\$ -	\$ -
Receivables	-	-	-	-
Due from grantor agencies	923,695	191,964	47,491	12,254
Due from other funds	-	-	-	-
Prepaid	1,687	23,491	1,227	-
<b>Total Assets</b>	<b>\$ 925,382</b>	<b>\$ 2,801,700</b>	<b>\$ 48,718</b>	<b>\$ 12,254</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 107	\$ 641,930	\$ -	\$ -
Due to other funds	925,275	373,351	48,718	12,254
Unearned revenue	-	1,786,419	-	-
<b>Total Liabilities</b>	<b>925,382</b>	<b>2,801,700</b>	<b>48,718</b>	<b>12,254</b>
<b><u>Fund Balances</u></b>				
Unreserved and undesignated, reported in:				
Special revenue funds	-	-	-	-
<b>Total Fund Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 925,382</b>	<b>\$ 2,801,700</b>	<b>\$ 48,718</b>	<b>\$ 12,254</b>

<b>Criminal Justice Division</b>	<b>Division of Emergency Management</b>	<b>Texas Commission on Environmental Quality</b>	<b>Environmental Protection Agency</b>	<b>Federal Highway Administration</b>	<b>Total Special Revenue Funds</b>
\$ -	\$ -	\$ 97,318	\$ -	\$ -	\$ 2,683,563
11,404	-	-	-	-	11,404
149,592	179,695	145,354	-	-	1,650,045
-	-	-	45,062	-	45,062
1,053	1,337	1,281	146	-	30,222
<u>\$ 162,049</u>	<u>\$ 181,032</u>	<u>\$ 243,953</u>	<u>\$ 45,208</u>	<u>\$ -</u>	<u>\$ 4,420,296</u>
\$ 1,192	\$ -	\$ -	\$ -	\$ -	\$ 643,229
10,446	137,306	5,548	-	-	1,512,898
80,577	43,726	238,405	45,208	-	2,194,335
<u>92,215</u>	<u>181,032</u>	<u>243,953</u>	<u>45,208</u>	<u>-</u>	<u>4,350,462</u>
69,834	-	-	-	-	69,834
<u>69,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,834</u>
<u>\$ 162,049</u>	<u>\$ 181,032</u>	<u>\$ 243,953</u>	<u>\$ 45,208</u>	<u>\$ -</u>	<u>\$ 4,420,296</u>

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

For the Year Ended September 30, 2010

	Texas Department on Aging and Disability Services	Commission on State Emergency Communications	Economic Development Administration	Texas Department of Rural Affairs
<b>Revenues</b>				
Federal grants	\$ 4,200,123	\$ -	\$ 188,780	\$ (1,912)
State grants	161,688	11,707,345	-	-
Interest income	-	2,095	-	-
Miscellaneous	5,568	-	-	-
Contract service revenue	-	-	-	12,254
Tuition fees	-	-	-	-
Third party applied	3,116,846	-	120,000	-
Cash match allocation	107,236	-	51,886	-
<b>Total Revenues</b>	<b>7,591,461</b>	<b>11,709,440</b>	<b>360,666</b>	<b>10,342</b>
<b>Expenditures</b>				
<b>Current:</b>				
Personnel services	873,597	539,814	54,564	9,579
Contractual services	661,621	5,536,966	135,155	11
Travel	34,497	22,999	704	700
Supplies and materials	21,650	108,554	5,768	-
Equipment rental and maintenance	-	970,986	-	-
Office space	71,686	136,413	2,867	-
Miscellaneous	141,965	65,095	4,843	158
Delegate agency costs	5,446,031	-	-	-
Internal expense allocation	205,553	388,242	20,231	(981)
Indirect cost allocation	134,216	191,174	16,534	875
Third party matching	-	-	120,000	-
<b>Capital outlay</b>	<b>645</b>	<b>3,749,197</b>	<b>-</b>	<b>-</b>
<b>Total Expenditures</b>	<b>7,591,461</b>	<b>11,709,440</b>	<b>360,666</b>	<b>10,342</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Beginning Fund Balances	-	-	-	-
<b>Ending Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Criminal Justice Division</b>	<b>Division of Emergency Management</b>	<b>Texas Commission on Environmental Quality</b>	<b>Environmental Protection Agency</b>	<b>Federal Highway Administration</b>	<b>Total Special Revenue Funds</b>
\$ -	\$ 675,066	\$ -	\$ 13,102	\$ 34,951	\$ 5,110,110
831,000	-	816,097	-	-	13,516,130
-	-	-	-	-	2,095
-	-	-	-	-	5,568
272,572	-	-	-	-	284,826
125,567	-	-	-	-	125,567
-	-	-	6,010	-	3,242,856
-	-	-	-	-	159,122
<u>1,229,139</u>	<u>675,066</u>	<u>816,097</u>	<u>19,112</u>	<u>34,951</u>	<u>22,446,274</u>
445,103	252,851	345,872	-	-	2,521,380
69,605	176,046	114,017	12,044	34,984	6,740,449
3,318	5,906	6,517	-	-	74,641
393,236	8,249	3,456	-	-	540,913
-	-	-	-	-	970,986
58,090	8,603	28,526	-	-	306,185
27,656	123,012	22,227	-	(33)	384,923
-	-	183,799	-	-	5,629,830
90,561	51,549	58,547	(146)	-	813,556
71,736	48,850	53,136	1,204	-	517,725
-	-	-	6,010	-	126,010
-	-	-	-	-	3,749,842
<u>1,159,305</u>	<u>675,066</u>	<u>816,097</u>	<u>19,112</u>	<u>34,951</u>	<u>22,376,440</u>
69,834	-	-	-	-	69,834
-	-	-	-	-	-
<u>\$ 69,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,834</u>

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## SCHEDULE OF INDIRECT COSTS

For the Year Ended September 30, 2010

	2010		2009
	Actual	Budget	Actual
Salaries	\$ 282,347	\$ 267,519	\$ 276,641
Benefits	136,265	115,983	129,579
	418,612	383,502	406,220
Advertising	384	500	842
Communications	4,658	5,634	4,695
Consumable supplies	17,137	13,000	27,908
Contractual	6,362	2,500	40,226
Equipment leases	27,500	27,500	27,500
Insurance and bonding	9,475	10,000	9,246
Internal expense allocation	38,011	41,279	39,529
Legal	7,196	5,000	2,505
Maintenance and repair	205	500	-
Meeting expense	696	1,000	5,381
Office lease	41,578	44,950	41,735
Other expenditures	-	-	27
Photocopies	8,066	6,000	10,597
Postage	4,352	4,500	5,944
Printing	1,226	5,500	5,596
Professional development	6,869	3,350	6,783
Professional services	-	1,500	-
Subscriptions and membership dues	27,512	25,500	25,868
Travel	10,429	16,100	16,816
<b>Total Indirect Costs</b>	<b>\$ 630,268</b>	<b>\$ 597,815</b>	<b>\$ 677,418</b>
<b>Indirect Cost Allocation Base</b>	<b>\$ 7,518,191</b>	<b>\$ 6,695,038</b>	<b>\$ 8,592,936</b>
<b>Indirect Rate</b>	<b>8.38%</b>	<b>8.93%</b>	<b>7.88%</b>

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## *SCHEDULE OF FRINGE BENEFITS*

For the Year Ended September 30, 2010

	2010		2009
	Actual	Budget	Actual
Payroll taxes	\$ 219,381	\$ 232,986	\$ 218,865
Group insurance	310,833	380,945	371,162
Worker's compensation insurance	8,121	7,750	6,767
Unemployment insurance	12,169	9,137	5,399
Retirement contribution	210,444	214,408	206,550
Other	1,659	5,000	5,716
Release time	367,132	327,984	362,530
<b>Total Fringe Benefits</b>	<b>\$ 1,129,739</b>	<b>\$ 1,178,210</b>	<b>\$ 1,176,989</b>
Total wages	2,866,254	3,045,575	2,871,593
Release time	(367,132)	(327,984)	(362,530)
<b>Basis for Allocation</b>	<b>\$ 2,499,122</b>	<b>\$ 2,717,591</b>	<b>\$ 2,509,063</b>
<b>Employee Benefit Rate</b>	<b>45.21%</b>	<b>43.35%</b>	<b>46.91%</b>

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*FEDERAL AND  
STATE AWARDS*

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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**

April 11, 2011

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

We have audited 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, 2010, which collectively comprise CAPCOG's basic financial statements and have issued our report thereon dated April 11, 2011. We conducted our audit in accordance with generally accepted auditing standards 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 Governor's Office of Budget and Planning's *State of Texas Single Audit Circular*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered CAPCOG'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 CAPCOG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CAPCOG'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 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.

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CAPCOG'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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or *State of Texas Single Audit Circular*.

We noted certain other matters that we reported to management of CAPCOG in a separate letter dated April 11, 2011.

This report is intended solely for the information and use of the Executive Committee, federal awarding agencies, 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.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND  
THE STATE OF TEXAS SINGLE AUDIT CIRCULAR AND ON THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AND STATE AWARDS**

April 11, 2011

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

**Compliance**

We have audited the compliance of the Capital Area Council of Governments ("CAPCOG"), 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 Single Audit Circular* that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of CAPCOG's management. Our responsibility is to express an opinion on CAPCOG's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *State of Texas Single Audit Circular*, issued by the Governor's Office of Budget and Planning. Those standards, OMB Circular A-133 and the *State of Texas Single Audit Circular* 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 and state 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. Our audit does not provide a legal determination of CAPCOG's compliance with those requirements.

In our opinion, CAPCOG 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, 2010.

### Internal Control Over Compliance

Management of CAPCOG is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CAPCOG's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 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.

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

This report is intended solely for the information and use of the Executive Committee, federal awarding agencies, 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.

*BELT HARRIS PECHACEK, 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, 2010**

**No prior findings.**

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended September 30, 2010

### A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified 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. No significant deficiencies in internal control over major federal award programs were disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified 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>CFDA number</u>
a. Department of Health and Human Services Aging Cluster	93.044, 93.045, 93.705 93.707, 93.053
b. Department of Commerce Economic Development Grants	11.302
c. Regional Peace Office Training – State Award	
d. Regional 9-1-1 Systems – State Award	
8. The threshold for distinguishing Type A and B programs was \$300,000 for federal purposes and \$410,798 for state purposes.
9. CAPCOG did classify as a low-risk auditee in the context of OMB Circular A-133.

### B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None

### C. FINDINGS – FEDERAL AWARDS

None

# CAPITAL AREA COUNCIL OF GOVERNMENTS

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2010

Grantor/ Program Title	CFDA Number	Grant/Contract Number	Expenditures
<b>FEDERAL AWARDS</b>			
<b>U.S. Department of Health and Human Services</b>			
<i>Pass-Through Texas Department on Aging and Disability Services</i>			
Title III, Part C - Nutrition Services*	93.045	Title III C1	\$ 725,482
Title III, Part C - Nutrition Services*	93.045	Title III C2	1,072,742
			1,798,224
Title III, Part B - Supportive Services and Senior Citizens*	93.044	Title III B	1,123,587
Title III, Part D - Disease Prevention and Health Promotion	93.043	Title III D	59,659
Title III, Part E - Caregiver	93.052	Title III E	244,983
Title VII - Ombudsman Activity Grant	93.042	Title VII OAG	54,214
Title VII - Prevention of Elder Abuse, Neglect, and Exploitation	93.041	Title VII EAP	15,898
ARRA - Congregate Meals*	93.707	N/A	208,901
ARRA - Home Delivered Meals*	93.705	N/A	102,843
Nutrition Services Incentive Program*	93.053	NSIP	484,953
CMS Basic	93.779	CMS	57,488
		<b>Total U.S. Department of Health and Human Services</b>	4,150,750
<b>Federal Highway Administration</b>			
Central Texas Greenprint for Growth	20.205	DTFH61-08-H-00009	34,951
		<b>Total Federal Highway Administration</b>	34,951
<b>U.S. Department of Commerce</b>			
Areawide Economic Development	11.302	08-83-03906	93,186
Smart Grid Energy Innovation	11.302	08-83-04453	267,479
		<b>Total U.S. Department of Commerce</b>	360,665
<b>U.S. Department of Homeland Security</b>			
<i>Pass-through Texas Department of Public Safety</i>			
State Homeland Security Program	97.073	2006-GE-T6-0068	37,014
State Homeland Security Program	97.073	2007-GE-T7-0024	90,171
State Homeland Security Program	97.073	2008-GE-T8-0034	414,036
State Homeland Security Program	97.073	2009-SS-T9-0064	15,244
			556,465
Interoperable Emergency Communications Grant Program	97.001	2008-IO-T8-0040	118,600
		<b>Total U.S. Department of Homeland Security</b>	675,065
<b>Environmental Protection Agency</b>			
Blue Skyways Program	66.036	SB-96666201-0	19,112
		<b>Total Environmental Protection Agency</b>	19,112
		<b>Total Federal Awards</b>	\$ 5,240,543

\*Indicates clustered program under OMB Circular A-133 Compliance Supplement

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# CAPITAL AREA COUNCIL OF GOVERNMENTS

## SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended September 30, 2010

Grantor/ Program Title	Grant/Contract Number	Expenditures
<b>Texas Department on Aging and Disability Services</b>		
State General Revenue Match for Title III	N/A	\$ 211,161
	<b>Total this Grantor</b>	211,161
<b>Office of the Governor Criminal Justice Division</b>		
Regional Peace Officer Training	SF-10-A10-15444-10	413,779
Regional Peace Officer Training	SF-11-A10-15444-11	50,706
CAPCOG RTA Regional Use of Force Simulator	SU-09-A10-22179-0	363,533
State Planning Assistance Grant	PF-10-X99-20062-03	118,504
State Planning Assistance Grant	PF-11-X99-20062-04	10,044
	<b>Total this Grantor</b>	956,566
<b>Texas Commission on Environmental Quality</b>		
Regional Solid Waste Management	582-10-918793	406,303
Regional Air Quality Planning	582-8-86228	409,794
	<b>Total this Grantor</b>	816,097
<b>Commission on State Emergency Communications</b>		
Regional 9-1-1 Implementation	911-09	4,261,898
Regional 9-1-1 Implementation	911-10	7,060,310
Regional 9-1-1 Implementation	911-11	387,231
	<b>Total this Grantor</b>	11,709,439
	<b>Total State Awards</b>	\$ 13,693,263

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**CAPITAL AREA COUNCIL OF GOVERNMENTS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
For the year ended September 30, 2010

**1. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of CAPCOG, and is presented on the accrual basis of accounting. The information in this schedule 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 this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.