

**CAPITAL AREA COUNCIL
OF GOVERNMENTS**

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2016

CAPITAL AREA COUNCIL OF GOVERNMENTS

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September 30, 2016

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REPORT OF INDEPENDENT AUDITORS

To the Executive Committee Members of
Capital Area Council of Governments
Austin, Texas

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 Capital Area Council of Governments (“CAPCOG”), as of and for the year ended September 30, 2016, 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.

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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.

To the Executive Committee Members of
Capital Area Council of Governments

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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 to 12 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

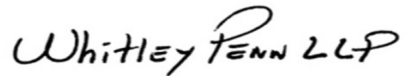
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CAPCOG's basic financial statements. The combining nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State of Texas Uniform Grant Management Standards* and are also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and schedules and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and schedules and 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.

To the Executive Committee Members of
Capital Area Council of Governments

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017 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.

The image shows a handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
May 26, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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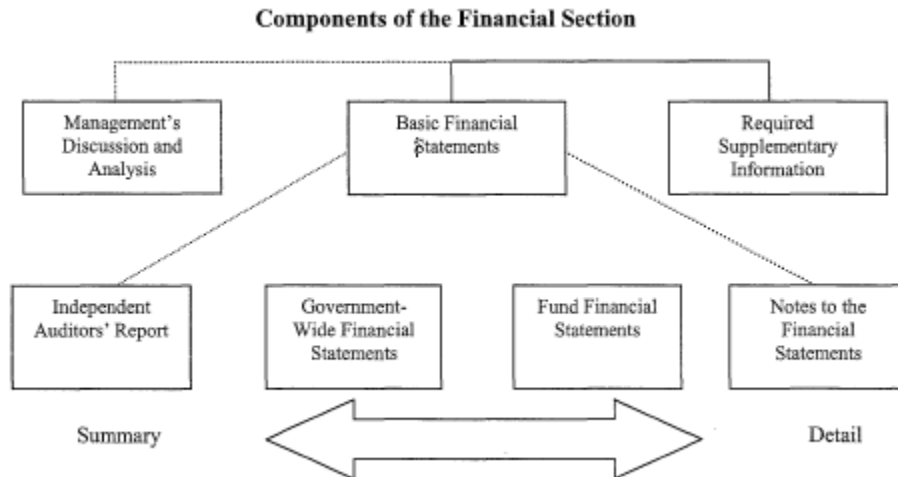
CAPITAL AREA COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2016

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 Capital Area Council of Governments (CAPCOG) for the year ending September 30, 2016. 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 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.

CAPITAL AREA COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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. Emergency District state mandated 911 fees, 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 nine 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, and the Capital Area Emergency Communication District (CAECD), which are considered to be major 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 are the last section of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of CAPCOG's financial position. Assets exceed liabilities by \$24,871,847 as of September 30, 2016 for the primary government. A portion of the CAPCOG's net position (7%) 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.

CAPITAL AREA COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Total Dollar
	2016	2015	Change
			2016-2015
Current and other assets	\$ 26,084,639	\$ 22,400,677	\$ 3,683,962
Capital assets, net	1,731,786	2,568,773	(836,987)
Total Assets	<u>27,816,425</u>	<u>24,969,450</u>	<u>2,846,975</u>
Other liabilities	2,944,578	2,405,783	538,795
Total Liabilities	<u>2,944,578</u>	<u>2,405,783</u>	<u>538,795</u>
Net Position:			
Investment in capital assets	1,731,786	2,568,773	(836,987)
Restricted	21,646,964	18,595,837	3,051,127
Unrestricted	1,493,097	1,399,057	94,040
Total Net Position	<u>\$ 24,871,847</u>	<u>\$ 22,563,667</u>	<u>\$ 2,308,180</u>

A portion of CAPCOG's net position, \$21,646,964, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$1,493,097, may be used to meet CAPCOG's ongoing obligations to members.

CAPCOG's total net position increased \$2,308,180. This increase is largely due to more revenues collected for emergency communication services than operating expenses.

CAPITAL AREA COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Statement of Activities

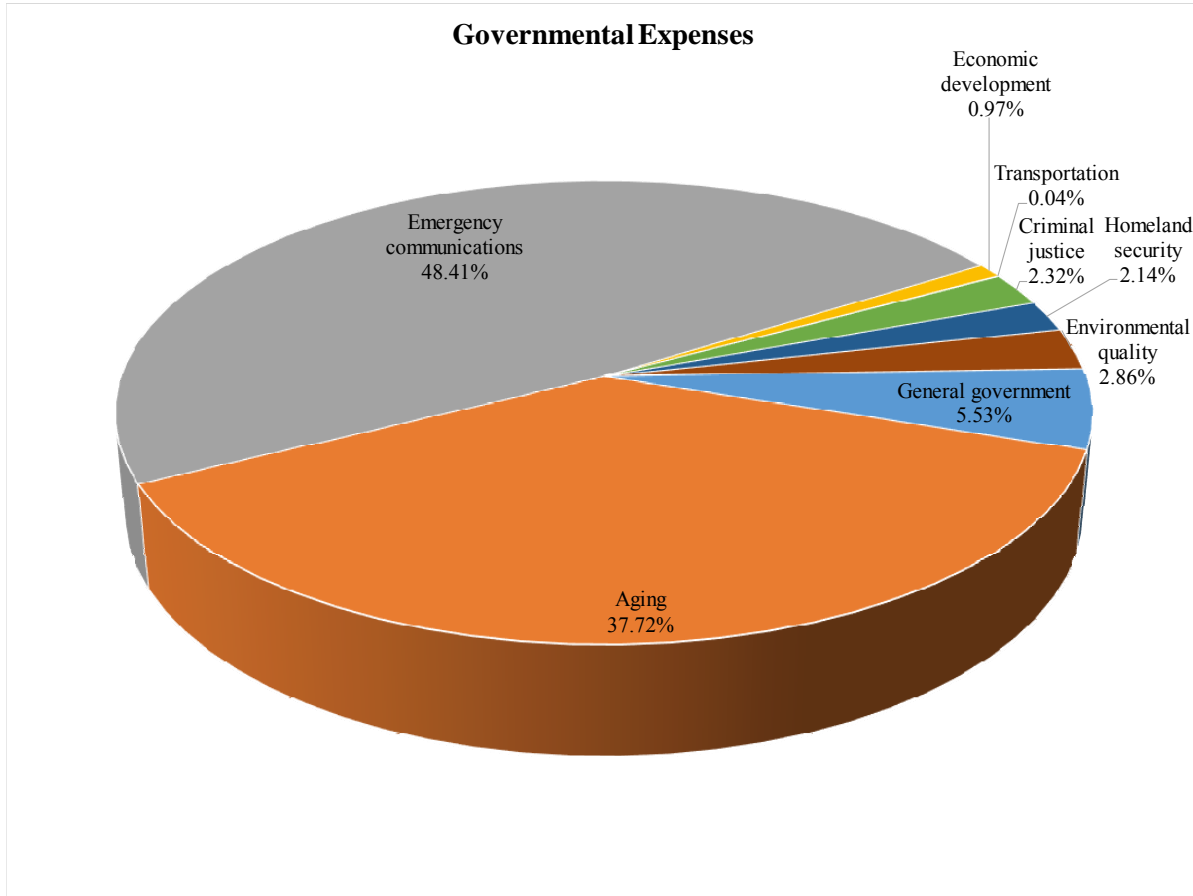
The following table provides a summary of CAPCOG's changes in net position:

	Governmental Activities		Total Dollar
	2016	2015	Change
			2016-2015
Revenues			
Program revenues:			
Charges for services	\$ 14,328,509	\$ 13,993,787	\$ 334,722
Operating grants and contributions	10,758,958	11,865,169	(1,106,211)
General revenues:			-
Membership dues	253,742	243,714	10,028
Contract service revenue	1,290,040	857,331	432,709
Miscellaneous	78,550	35,340	43,210
Interest income	63,094	8,597	54,497
Total Revenues	26,772,893	27,003,938	(231,045)
Expenses			
General government	1,353,764	669,991	683,773
Aging	9,228,577	9,002,864	225,713
Emergency communications	11,843,864	8,824,830	3,019,034
Economic development	238,245	189,129	49,116
Transportation	10,568	8,132	2,436
Criminal justice	566,598	550,289	16,309
Homeland security	523,088	470,550	52,538
Environmental quality	700,009	2,005,681	(1,305,672)
Total Expenses	24,464,713	21,721,466	2,743,247
Change in Net Position	2,308,180	5,282,472	(2,974,292)
Beginning net position	22,563,667	17,281,195	3,658,065
Ending net position	\$ 24,871,847	\$ 22,563,667	\$ 683,773

CAPITAL AREA COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Statement of Activities (continued)

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



For the year ended September 30, 2016, revenues from governmental activities totaled \$26,772,893, a decrease of \$231,045 over the prior year. This decrease is primarily due to the finalization of the Environmental Protection Grant in the prior year.

As of the end of the fiscal year, expenses for governmental activities totaled \$24,464,713, which represents an increase of \$2,743,247 over the prior year. This increase is mainly due to an increase in expenses for the Emergency Communications District.

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.

CAPITAL AREA COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS OF CAPCOG'S FUNDS (continued)

CAPCOG's governmental funds reflect a combined fund balance of \$23,322,764. Of this, \$1,675,800 is unassigned and \$21,646,964 is restricted for various purposes.

The general fund reported a fund balance of \$1,675,800, an increase of \$84,632 over the prior year. In the aging fund, expenditures exceeded revenue giving the aging fund a restricted fund balance of \$21,527. The CAECD fund reported a fund balance of \$21,351,033, which is an increase of \$3,040,975 due primarily to revenues from charges for services for emergency communications.

CAPITAL ASSETS

At the end of the year, CAPCOG's governmental activities had invested \$1,731,786, in a variety of capital assets, including equipment for emergency communications net of accumulated depreciation.

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 fiscal year 2017, CAPCOG has expected revenues of \$25,603,495.

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, 2016

	<u>Primary Government Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 24,063,955
Receivables	976,814
Due from grantor agencies	892,233
Prepaid items	<u>151,637</u>
	<u>26,084,639</u>
Capital assets:	
Net depreciable capital assets	<u>1,731,786</u>
Total Assets	<u>27,816,425</u>
Liabilities	
Accounts payable	1,727,665
Employee retirement payable	172,079
Accrued compensated absences	182,703
Unearned revenue	<u>862,131</u>
Total Liabilities	<u>2,944,578</u>
Net Position	
Investment in capital assets	1,731,786
Restricted	21,646,964
Unrestricted	<u>1,493,097</u>
Total Net Position	<u>\$ 24,871,847</u>

See Notes to Financial Statements.

CAPITAL AREA COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES
September 30, 2016

Functions/Programs	Expenses	Indirect and Internal Cost Allocation	Expenses After Indirect and Internal Cost Allocation
Primary Government:			
Governmental Activities			
General government	\$ 2,932,358	\$ (1,578,594)	\$ 1,353,764
Aging	8,714,065	514,512	9,228,577
Emergency communication	11,096,477	747,387	11,843,864
Economic development	197,378	40,867	238,245
Transportation	8,109	2,459	10,568
Criminal justice	459,459	107,139	566,598
Homeland security	455,026	68,062	523,088
Environmental quality	601,841	98,168	700,009
Total Governmental Activities	<u>24,464,713</u>	<u>-</u>	<u>24,464,713</u>
Total Primary Government	<u>\$ 24,464,713</u>	<u>\$ -</u>	<u>\$ 24,464,713</u>

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>
\$ 69,949	\$ -	\$ (1,283,815)
-	8,938,830	(289,747)
14,124,615	-	2,280,751
-	238,245	-
-	-	(10,568)
133,945	353,801	(78,852)
-	524,721	1,633
-	703,361	3,352
<u>14,328,509</u>	<u>10,758,958</u>	<u>622,754</u>
<u>\$ 14,328,509</u>	<u>\$ 10,758,958</u>	<u>\$ 622,754</u>

General Revenues:

Membership dues	253,742
Contract service revenue	1,290,040
Miscellaneous	78,550
Interest income	63,094
Total General Revenues	<u>1,685,426</u>
Change in Net Position	2,308,180
Beginning Net Position	<u>22,563,667</u>
Ending Net Position	<u>\$ 24,871,847</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2016

	<u>General</u>	<u>Aging</u>	<u>Texas Commission on Environmental Quality</u>
Assets			
Cash and cash equivalents	\$ 1,805,643	\$ -	\$ 497,179
Receivables	273,313	118,646	-
Due from grantor agencies	-	585,173	5,832
Due from other funds	810,642	-	240,500
Prepaid items	151,637	-	-
Total Assets	<u>3,041,235</u>	<u>703,819</u>	<u>743,511</u>
Liabilities			
Accounts payable	786,163	-	-
Employee retirement payable	172,079	-	-
Due to other funds	379,783	630,833	-
Unearned revenue	27,410	51,459	743,511
Total Liabilities	<u>1,365,435</u>	<u>682,292</u>	<u>743,511</u>
Fund Balances			
Restricted	-	21,527	-
Unassigned	1,675,800	-	-
Total Fund Balances	<u>1,675,800</u>	<u>21,527</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 3,041,235</u>	<u>\$ 703,819</u>	<u>\$ 743,511</u>

See Notes to Financial Statements.

Capital Area Emergency Communication District	Nonmajor Special Revenue	Total Governmental Funds
\$ 21,761,133	\$ -	\$ 24,063,955
560,328	24,527	976,814
-	301,228	892,233
-	139,283	1,190,425
-	-	151,637
<u>22,321,461</u>	<u>465,038</u>	<u>27,275,064</u>
941,502	-	1,727,665
-	-	172,079
28,926	150,883	1,190,425
-	39,751	862,131
<u>970,428</u>	<u>190,634</u>	<u>3,952,300</u>
21,351,033	274,404	21,646,964
-	-	1,675,800
<u>21,351,033</u>	<u>274,404</u>	<u>23,322,764</u>
<u>\$ 22,321,461</u>	<u>\$ 465,038</u>	<u>27,275,064</u>

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CAPITAL AREA COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2016

Total fund balances - governmental funds	\$ 23,322,764
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	21,101,278
Accumulated depreciation has not been included in the fund financial statements.	(19,369,492)
Accrued liabilities for compensated absences are not due and payable in the current period and have not been reflected in the fund financial statements.	<u>(182,703)</u>
Total Net Position of Governmental Activities	<u>\$ 24,871,847</u>

See Notes to Financial Statements.

CAPITAL AREA COUNCIL OF GOVERNMENTS
STATEMENT REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	<u>General</u>	<u>Aging</u>	<u>Texas Commission on Environmental Quality</u>
Revenues			
Federal grants	\$ -	\$ 4,355,431	\$ -
State grants	-	538,859	703,361
Membership dues	253,742	-	-
Local match	(120,879)	-	-
Other local revenue	-	-	-
Miscellaneous	58,500	-	-
Interest	1,968	-	1,350
Tuition fees	69,949	-	-
Contract service revenue	875,323	285,114	-
Contractual local match	-	4,044,540	-
Total Revenues	<u>1,138,603</u>	<u>9,223,944</u>	<u>704,711</u>
Expenditures			
General government	1,094,311	-	-
Aging	-	9,224,227	-
Emergency communications	-	-	-
Economic development	-	-	-
Transportation	-	-	-
Criminal justice	-	-	-
Homeland security	-	-	-
Environmental quality	-	-	704,711
Total Expenditures	<u>1,094,311</u>	<u>9,224,227</u>	<u>704,711</u>
Other Financing Sources (Uses)			
Transfers In	40,340	-	-
Transfers Out	-	-	(40,340)
Total Other Financing Sources (Uses)	<u>40,340</u>	<u>-</u>	<u>(40,340)</u>
Net Change in Fund Balances	84,632	(283)	(40,340)
Beginning Fund Balances	<u>1,591,168</u>	<u>21,810</u>	<u>40,340</u>
Ending Fund Balances	<u>\$ 1,675,800</u>	<u>\$ 21,527</u>	<u>\$ -</u>

See Notes to Financial Statements.

Capital Area Emergency Communication District	Nonmajor Special Revenue	Total Governmental Funds
\$ -	\$ 680,646	\$ 5,036,077
-	353,801	1,596,021
-	-	253,742
-	-	(120,879)
14,124,615	-	14,124,615
20,050	-	78,550
59,776	-	63,094
-	133,945	203,894
-	128,486	1,288,923
-	83,437	4,127,977
<u>14,204,441</u>	<u>1,380,315</u>	<u>26,652,014</u>
-	-	1,094,311
-	-	9,224,227
11,163,466	-	11,163,466
-	238,245	238,245
-	10,568	10,568
-	556,006	556,006
-	524,721	524,721
-	-	704,711
<u>11,163,466</u>	<u>1,329,540</u>	<u>23,516,255</u>
-	-	40,340
-	-	(40,340)
-	-	-
3,040,975	50,775	3,135,759
<u>18,310,058</u>	<u>223,629</u>	<u>20,187,005</u>
<u>\$ 21,351,033</u>	<u>\$ 274,404</u>	<u>\$ 23,322,764</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
STATEMENTS OF ACTIVITIES
For the Year Ended September 30, 2016

Net changes in fund balances - total governmental funds \$ 3,135,759

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	292,520
Depreciation expense	(1,129,507)

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	<u>9,408</u>
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Change in Net Position of Governmental Activities	<u>\$ 2,308,180</u>
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See Notes to Financial Statements.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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 CAECD. 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 its operational and financial relationship with CAPCOG. The Board of Directors' of CAPCOG is either able to impose its' will on CAECD or has a financial benefit/burden due to its' exists.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (continued)

Capital Area Economic Development District

The Capital Area Economic Development District (the "CAEDD"), a nonprofit corporation, has been included in the reporting entity as a blended component unit. The 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 Board of Directors of CAPCOG. The CAEDD is responsible for managing revenue collected from grants and local government match dollars to promote economic growth. The CAEDD is included in the CAPCOG's reporting entity because of the significance of their operational and financial relationship with CAPCOG.

Capital Area Initiative 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. 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 governmental 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.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation - Fund Financial Statements (continued)

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, CAECD, criminal justice division fund, economic development administrative fund, Texas department of rural affairs fund, division of emergency management fund, Texas commission on environmental quality fund, and the environmental protection agency fund. The Aging, TCEQ, and CAECD 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 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.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting (continued)

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.

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

CAPCOG reports all investments at fair value based on quoted market prices at year-end date, except for local government investment pools. CAPCOG's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

CAPCOG categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 is the highest level of decision-making authority for CAPCOG that can, by 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.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Fund Balance Policies (continued)

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.

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 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 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (codified in 2 CFR Part 200). The fiscal year 2016 certified indirect cost rate is 27.80 percent which was calculated using a direct cost rate base type of salaries and wages.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15. Unearned Revenue

Unearned revenues arise from the receipt of grant funds and other revenues prior to the expenditure for its restricted purpose. The unearned revenue is recognized as revenue when the related expenditure is made.

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 benefit 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.

H. New Accounting Standards

In the current fiscal year, the CAPCOG implemented the following new standards:

- GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

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.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

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.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, CAPCOG had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
External investment pools	<u>\$ 22,248,526</u>	45
Total Amortized Cost	<u>\$ 22,248,526</u>	
Portfolio weighted average maturity		45

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, 2016, CAPCOG's investments in TexPool were rated "AAAm" by Standard & Poor's.

TexPool

TexPool policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act (PFIA) of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TexPool. TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (continued)

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. 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. TexPool uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, CAPCOG's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAM by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, TexPool does not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

B. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 19,171,385	\$ 292,520	\$ -	\$ 19,463,905
Leasehold improvements	1,637,373	-	-	1,637,373
Total capital assets being depreciated	<u>20,808,758</u>	<u>292,520</u>	<u>-</u>	<u>21,101,278</u>
Less accumulated depreciation for:				
Furniture and equipment	(16,766,352)	(965,767)	-	(17,732,119)
Leasehold improvements	(1,473,633)	(163,740)	-	(1,637,373)
Total accumulated depreciation	<u>(18,239,985)</u>	<u>(1,129,507)</u>	<u>-</u>	<u>(19,369,492)</u>
Total capital assets, net	<u>2,568,773</u>	<u>(836,987)</u>	<u>-</u>	<u>1,731,786</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 2,568,773</u>	<u>\$ (836,987)</u>	<u>\$ -</u>	<u>\$ 1,731,786</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 185,148
Emergency communications	913,323
Criminal justice	11,492
Homeland security	4,579
Environmental quality	14,965
Total	<u>\$ 1,129,507</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

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. CAPCOG renewed the lease agreement for an additional ten-years with payments beginning April 1, 2017. At September 30, 2016, CAPCOG was committed for rental payments as follows:

Fiscal Year Ended	Amounts
2017	\$ 631,023
2018	724,752
2019	750,636
2020	776,520
2021	802,404
2022 - 2026	4,400,280
2027	472,383
Total	\$ 8,557,998

Lease expenses for office space and office equipment were \$652,722 for the year ended September 30, 2016.

D. Interfund Transactions

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

Receivable Fund	Payable Fund	Due From / To Other Funds
General	Aging	\$ 630,833
General	Capital Area Emergency Communication District	28,926
General	Nonmajor funds	150,883
Texas Commission on Environmental Quality	General	240,500
Nonmajor funds	General	139,283
		\$ 1,190,425

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 compensated absences was \$182,703 at September 30, 2016.

CAPITAL AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

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.

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.

CAPCOG's pension plan benefits are calculated on a calendar year basis. CAPCOG's total payroll for the calendar year 2016 was \$2,856,426. During calendar year 2016, CAPCOG accrued \$228,514 (8.0 percent of total base salaries) to the Plan which was paid out in January 2017. Employees made contributions of \$183,352 (6 percent of eligible payroll) during calendar year 2016. If an employee terminates during the calendar year, the employee forfeits the employer contribution of 8.0 percent.

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OTHER SUPPLEMENTARY INFORMATION

CAPITAL AREA COUNCIL OF GOVERNMENTS

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS BY FUNDING SOURCE

September 30, 2016

	<u>Economic Development Administration</u>	<u>Texas Department of Rural Affairs</u>	<u>Criminal Justice Division</u>
Assets			
Receivables	\$ 334	\$ 161	\$ 24,032
Due from grantor agencies	66,283	-	122,788
Due from other funds	-	-	139,283
Total Assets	<u>66,617</u>	<u>161</u>	<u>286,103</u>
Liabilities			
Due to other funds	66,617	161	-
Unearned revenue	-	-	37,827
Total Liabilities	<u>66,617</u>	<u>161</u>	<u>37,827</u>
Fund Balances			
Restricted	-	-	248,276
Total Fund Balances	<u>-</u>	<u>-</u>	<u>248,276</u>
Total Liabilities and Fund Balances	<u>\$ 66,617</u>	<u>\$ 161</u>	<u>\$ 286,103</u>

<u>Division of Emergency Management</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ -	\$ 24,527
112,157	301,228
<u>-</u>	<u>139,283</u>
<u>112,157</u>	<u>465,038</u>
84,105	150,883
1,924	39,751
<u>86,029</u>	<u>190,634</u>
<u>26,128</u>	<u>274,404</u>
<u>26,128</u>	<u>274,404</u>
<u>\$ 112,157</u>	<u>\$ 465,038</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS BY FUNDING SOURCE
September 30, 2016

	Economic Development Administration	Texas Department of Rural Affairs	Criminal Justice Division
Revenues			
Federal grants	\$ 155,925	\$ -	\$ -
State grants		-	353,801
Contract service revenue	-	9,451	96,125
Tuition fees	-	-	133,945
Cash match allocation	82,320	1,117	-
Total Revenues	<u>238,245</u>	<u>10,568</u>	<u>583,871</u>
Expenditures			
Current:			
Personnel services	136,489	7,058	284,242
Contractual services	-	-	52,028
Travel	6,451	8	1,569
Supplies and materials	-	-	108,762
Miscellaneous	54,438	1,043	2,266
Indirect cost allocation	16,001	1,148	55,281
Internal expense allocation	24,866	1,311	51,858
Third-party matching	-	-	-
Total Expenditures	<u>238,245</u>	<u>10,568</u>	<u>556,006</u>
Other Financing Sources (Uses)			
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	-	-	27,865
Beginning Fund Balances	<u>-</u>	<u>-</u>	<u>220,411</u>
Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248,276</u>

Division of Emergency Management	Total Nonmajor Special Revenue Funds
\$ 524,721	\$ 680,646
-	353,801
22,910	128,486
-	133,945
-	83,437
547,631	1,380,315
213,305	641,094
163,523	215,551
4,772	12,800
75,059	183,821
-	57,747
29,269	101,699
38,793	116,828
-	-
524,721	1,329,540
-	-
-	-
22,910	50,775
3,218	223,629
\$ 26,128	\$ 274,404

CAPITAL AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

For the Year Ended September 30, 2016

	<u>Actual</u>	<u>Budget</u>
Salaries	\$ 283,296	\$ 286,718
Benefit	148,535	144,559
	<u>431,831</u>	<u>431,277</u>
Accounting/Auditing	19,622	13,285
Communications	4,987	7,941
Insurance	9,845	12,000
Legal	22,236	3,000
Postage	6,922	7,000
Printing	1,476	1,500
Photocopy expense	13,783	12,000
Contractual services	-	1,500
Advertising	110	500
Professional development	3,540	3,350
Meeting expense	-	1,000
Subscriptions dues	33,456	34,375
Travel	5,541	9,200
Office space	80,601	63,825
Equipment maintenance	-	500
Consumable supplies	14,632	10,500
Furniture Lease/Maintenance	7,107	7,107
Personnel payroll services	11,045	13,161
Computer support services	14,450	22,546
GIS Services	1,200	2,000
Total Indirect Expenditures	<u>682,384</u>	<u>657,567</u>
Indirect carry forward	(19,318)	15,829
Cost recovery CAECD	(230,504)	(230,504)
Total Indirect Costs Allocated	<u>\$ 432,562</u>	<u>\$ 442,892</u>
Indirect Cost Allocation Base	<u>\$ 1,561,279</u>	<u>\$ 1,592,943</u>
Indirect Rate	<u>27.71%</u>	<u>27.80%</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF FRINGE BENEFITS

For the Year Ended September 30, 2016

	<u>Actual</u>	<u>Budget</u>
Payroll taxes	\$ 252,178	\$ 265,502
Group insurance	552,243	563,829
Workers' compensation insurance	11,706	9,450
Unemployment insurance	11,129	13,882
Retirement contribution	214,130	236,002
Other	2,460	22,500
Release time	432,348	424,592
Total Fringe Benefits	<u>\$ 1,476,194</u>	<u>\$ 1,535,757</u>
Total wages	3,310,696	3,470,614
Release time	(432,348)	(424,592)
Basis for Allocation	<u>\$ 2,878,348</u>	<u>\$ 3,046,022</u>
Employee Benefit Rate	<u>51.29%</u>	<u>50.42%</u>

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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***

To the Executive Committee Members of
Capital Area Council of Governments
Austin, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Capital Area Council of Governments (the "CAPCOG"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise CAPCOG's basic financial statements, and have issued our report thereon dated May 26, 2017.

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 a 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.

To the Executive Committee Members of
Capital Area Council of Governments

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*.

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* in considering CAPCOG's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
May 26, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE *UNIFORM GUIDANCE AND THE STATE OF TEXAS*
*SINGLE AUDIT CIRCULAR***

To the Executive Committee Members of
Capital Area Council of Governments

Report on Compliance for Each Major Federal and State Program

We have audited Capital Area Council of Governments' (the "CAPCOG") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State of Texas Uniform Grant Management Standards* that could have a direct and material effect on each of CAPCOG's major federal and state programs for the year ended September 30, 2016. CAPCOG's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditor's 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State of Texas Uniform Grant Management Standards*. Those standards, the Uniform Guidance and the *State of Texas Uniform Grant Management Standards* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about 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.

To the Executive Committee Members of
Capital Area Council of Governments

Opinion on Each Major Federal and State 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, 2016.

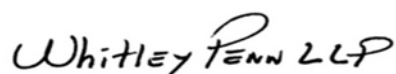
Report on Internal Control Over Compliance

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 the Uniform Guidance and the *State of Texas Uniform Grant Management Standards*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

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



Houston, Texas
May 26, 2017

CAPITAL AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

A. SUMMARY OF AUDIT RESULTS

I. Summary of Auditors' Results	
Financial Statements	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No
<u>Federal Awards</u>	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	None
Identification of major programs:	
Name of Federal Program or Cluster	CFDA Numbers
Aging Cluster	
Special Programs for the Aging – Title III, Part B	93.044
Special Programs for the Aging – Title III, Part C	93.045
Nutrition Services Incentive Program	93.053
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$750,000
2. Federal Single Audit - Auditee qualified as low-risk auditee?	Yes

CAPITAL AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2016

I. Summary of Auditors' Results (continued)	
<u>State Awards:</u>	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major state programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with <i>State of Texas Uniform Grant Management Standards</i> Section 510(a)?	None
Identification of major programs:	
Name of State Program or Cluster	CFDA Number
Aging: State General Revenue – Other State General Revenue – OMB Services State General Revenue – ADRC Operations	N/A
1. Dollar Threshold Considered Between Type A and Type B Programs	\$300,000
2. State Single Audit - Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

There were no current year findings.

III. Federal and State Award Findings and Questioned Costs.

There were no current year findings or questioned costs.

IV. Status of Prior Year Findings

There were no findings in the prior year.

V. Corrective Action

Not applicable.

CAPITAL AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2016

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>	<u>Pass Through To Sub Recipients</u>
U.S. Department of Health and Human Services				
Pass-through Texas Department of Aging and Disability Services				
<i>Title III, Part B Grants for Supportive Services</i>	93.044	Title III-B	\$ 981,186	\$ 118,283
<i>Title III, Part C Nutrition Services</i>	93.045	Title III-C1	916,789	648,977
<i>Title III, Part C Nutrition Services</i>	93.045	Title III-C2	1,130,942	1,048,605
<i>Nutrition Services Incentive Program (NSIP)</i>	93.053	NSIP	455,092	455,092
<i>Title III, Part D Disease Prevention and Health</i>	93.043	Title III-D	65,602	-
Total Aging Cluster			<u>3,549,611</u>	<u>2,270,957</u>
<i>Title III, Part E, National Family Caregiver Support</i>	93.052	Title III-E	472,644	-
<i>Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation (EAP)</i>	93.041	Title VII-EAP	15,329	-
<i>Title VII, Chapter 2 Long-Term Care Ombudsman Services for Older Individuals (OAG)</i>	93.042	Title VII-OAG	59,844	-
<i>Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations</i>	93.324	CMS Basic	131,487	-
<i>Medicare Enrollment Assistance Program</i>	93.071	ATRA-MIPPA	21,064	-
<i>Medicare Enrollment Assistance Program</i>	93.071	ADRC-MIPPA	9,325	-
<i>Medicare Enrollment Assistance Program</i>	93.072	ADRC - Respite	16,182	-
 <i>Money Follows the Person Rebalancing Demonstration</i>	 93.791	 OMB MFPD	 15,427	 -
 <i>Money Follows the Person Rebalancing Demonstration</i>	 93.791	 ADRC-MFPD	 48,421	 -
Total U.S. Department of Health and Human Services			<u>4,339,334</u>	<u>2,270,957</u>
U.S. Department of Commerce				
Direct Award				
<i>Areawide Economic Development</i>	11.302	08-83-05018	81,905	-
<i>Disaster Recovery Assistance</i>	11.307	08-79-05067	74,020	-
Total U.S. Department of Commerce			<u>155,925</u>	<u>-</u>
U.S. Department of Homeland Security				
Pass-through Texas Department of Public Safety				
<i>2014 State Homeland Security Program Management and Administrative</i>	97.067	14SHSP053	22,133	-
<i>2014 State Homeland Security Program WEBOEC Sustainment</i>	97.067	14SHSP052P02	37,886	-
<i>2014 State Homeland Security Program Regional Planning</i>	97.067	14SHSP052P01	126,734	-
<i>2014 State Homeland Security Program ECON-Cyber Attack Vulnerability Assessment</i>	97.067	14SHSP9004	131,285	-
Total Pass-through Texas Department of Public Safety			<u>318,038</u>	<u>-</u>
Pass-through Office of the Governor - Homeland Security Grant Division				
<i>2015 State Homeland Security Program Regional Planning</i>	97.067	2956901	160,067	-
<i>2015 State Homeland Security Program Training and Exercises</i>	97.067	2956801	4,056	-
Total Pass-through Office of the Governor - Homeland Security Grant Division			<u>164,123</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>482,161</u>	<u>-</u>
Total Federal Awards			<u>\$ 4,977,420</u>	<u>\$ 2,270,957</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended September 30, 2016

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>	<u>Pass Through To Sub Recipients</u>
Texas Department of Aging and Disability Services			
<i>State General Revenue Title III E Match</i>	539-16-0024-00001	\$ 85,215	\$ -
<i>State General Revenue - Other</i>	539-16-0024-00001	141,752	-
<i>State General Revenue - OMB Services</i>	539-16-0024-00001	152,548	-
<i>State General Revenue - ADRC Operations</i>	539-16-0024-00001	175,441	-
Total Texas Department of Aging and Disability Services		<u>554,956</u>	<u>-</u>
Office of the Governor Criminal Justice Division			
Regional Training Academy	1544414	353,801	-
Total Office of the Governor Criminal Justice Division		<u>353,801</u>	<u>-</u>
Texas Commission on Environmental Quality			
Regional Solid Waste Management	582-16-60647	225,601	86,103
PM 2.5 Monitoring	582-13-31912	13,295	-
PM 2.5 Monitoring	582-17-70016	1,315	-
Rider 8 Local Air Quality Planning Grant	582-14-40052	13,262	-
Rider 7 - Near Non-Attainment Area Work Plan	582-16-60851-01	449,888	-
Total Texas Commission on Environmental Quality		<u>703,361</u>	<u>86,103</u>
Total State Awards		<u>\$ 1,612,118</u>	<u>\$ 86,103</u>

CAPITAL AREA COUNCIL OF GOVERNMENTS
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the “Schedules”) includes the federal and state grant activity of CAPCOG under programs of the federal and state government for the year ended September 30, 2016. The information in these Schedules is presented in accordance with the requirements of Office of Management and Budget (OMB) Uniform Guidance and the *State of Texas Uniform Grant Management Standards*. Because these Schedules present only a selected portion of the operations of CAPCOG, they are not intended to and do not present the financial position and changes in net position of CAPCOG.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CAPCOG accounts for all federal and state awards under programs of the federal and state governments in special revenue funds. These programs 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.

Expenditures reported on this schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance). This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal and state grant funds for governmental funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When such funds are advanced to CAPCOG, they are recorded as unearned revenues until earned. Otherwise, federal and state grant funds are received on a reimbursement basis from the respective federal or state program agencies. Generally, unused balances are returned to the grantor at the close of specified project periods. CAPCOG has elected not to use the 10 percent de minimis indirect cost rate allowed under the *Uniform Guidance*.