

**Alamo Area Council of Governments**

**Financial Statements and  
Independent Auditors' Report**

December 31, 2003

# Alamo Area Council of Governments

## Table of Contents

December 31, 2003

	<b>Page</b>
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report	5
Management's Discussion and Analysis	7
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements:	
Statement of Net Assets	18
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet – Governmental Funds	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Net Assets	28
Statement of Fiduciary Net Assets – Fiduciary Funds	29
Notes to Financial Statements	31

	<b>Page</b>
<b>FINANCIAL SECTION (CONTINUED)</b>	
<b>Required Supplementary Information</b>	
Schedule of Funding Progress – Texas County and District Retirement System (Unaudited)	50
Note to Schedule of Funding Progress – Texas County and District Retirement System (Unaudited)	51
Budgetary Comparison Schedule – General Fund	52
<b>Other Supplemental Schedules</b>	
Schedule of Indirect Costs	54
Schedule of Employee Benefits (Fringe and Release Time)	55
<b>SINGLE AUDIT SECTION</b>	
Independent Auditors’ Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	59
Independent Auditors’ Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State of Texas Single Audit Circular Issued by the Office of the Governor of the State of Texas	61
Schedule of Expenditures of Federal and State Awards	64
Notes to Schedule of Expenditures of Federal and State Awards	72
Schedule of Findings and Questioned Costs	74
Corrective Action Plan	78
Summary of Schedule of Prior Audit Findings	81

## Financial Section

(This page intentionally left blank.)



**PADGETT, STRATEMANN & CO., L.L.P.**

Certified Public Accountants and Business Advisors

Independent Auditors' Report

To the Board of Directors  
Alamo Area Council of Governments  
San Antonio, Texas

We have audited the accompanying basic financial statements of Alamo Area Council of Governments ("AACOG") as of and for the year ended December 31, 2003 as listed in the table of contents. These basic financial statements are the responsibility of AACOG's management. Our responsibility is to express an opinion 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the basic financial statements of AACOG as of December 31, 2003, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the financial statements, AACOG implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which changes note disclosure requirements for governmental entities, for the year ended December 31, 2003.

100 N.E. Loop 410, Suite 1100, San Antonio, Texas 78216 • [www.padgett-cpa.com](http://www.padgett-cpa.com)  
Phone (210) 828-6281 • (800) 879-4966 • Fax (210) 826-8606

*An Independently Owned Member of The McGladrey Network Worldwide Services through RSM International*

The Management's Discussion and Analysis, Schedule of Funding Progress, and Budgetary Comparison Schedule are not a required part of the basic financial statements but are supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of AACOG. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the State of Texas Single Audit Circular, issued by the Office of the Governor of the State of Texas, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2004 on our consideration of AACOG's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Padgett, Strickman & Co, L.L.P.*

Certified Public Accountants  
April 9, 2004

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

Alamo Area Council of Governments' ("AACOG") discussion and analysis offer readers of AACOG's financial statements a narrative overview and analysis of AACOG's financial activities for the year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished and the financial statements and notes to financial statements, which immediately follow this discussion.

The implementation of the new financial reporting requirements under GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion – for State and Local Governments*, makes AACOG's 2003 financial statements significantly different than those of previous years. New features include the Management's Discussion and Analysis, the Government-Wide Statement of Activities, the concept of major fund reporting, and the reporting of long-term debt liabilities in the governmental activities. These concepts are explained throughout this discussion and analysis.

## **Financial Highlights**

- The assets of AACOG exceeded its liabilities as of December 31, 2003 by \$2,761,964 (*net assets*). Of this amount, \$847,464 (*unrestricted net assets*) may be used to meet AACOG's ongoing obligations to citizens and creditors in accordance with AACOG's fund designation and fiscal policies.
- AACOG's net assets increased by \$521,162.
- As of the close of the 2003 fiscal year, AACOG's governmental funds reported combined ending fund balances of \$847,464. Of this amount, \$847,464 is unreserved fund balance available for use within AACOG's fund designation and fiscal policies.
- As of December 31, 2003, unreserved, undesignated fund balance for the General Fund was \$846,916 and \$548 for the AADC Pass-Through Fund.

## **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to AACOG's basic financial statements. AACOG's basic financial statements comprise three components: government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.



### ***Government-Wide Financial Statements***

The *government-wide financial statements* are designed to provide readers with a broad overview of AACOG's finances in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how AACOG's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of AACOG that are principally supported by grants and regional appropriations (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). However, all of AACOG's activities are considered governmental activities and, accordingly, there are no business-type activities.

AACOG's management has reviewed other entities and activities for possible inclusion in the reporting entity. Based on this review, the Alamo Area Development Corporation ("AADC") has been included in the financial reporting entity as a blended component unit. During 1998, AADC contracted with Alamo Workforce Development, Inc. ("AWD") to administer programs consisting primarily of Texas Workforce Commission grants. AADC is governed by a Board of five directors, which are also members of the governing body, AACOG. AADC is presented as a Special Revenue Fund. Complete financial statements may be obtained at the entity's administrative offices.

### ***Fund Financial Statements***

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. AACOG, like other similar governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of AACOG are classified as *governmental funds*.

### ***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 fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The focus of governmental funds is narrower than that of the government-wide financial statements; therefore, 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 AACOG'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*.

AACOG maintains a General Fund and 26 Special Revenue Funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in funds balances for each fund, 6 of which are considered to be major funds: the General Fund, the AADC Fund, the AADC Pass-Through Fund, the Texas Department of Transportation, the Alamo Area Agency on Aging, and the Bexar Area Agency on Aging.

### ***Notes to Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 31-47 of this report.

## Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. AACOG's assets exceeded liabilities by \$2,761,964 at December 31, 2003. The following table reflects the condensed Statement of Net Assets compared to prior year.

**Table A-1**  
**AACOG's Net Assets**

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>
	<u>2003</u>	<u>2002</u>	
<b>Assets</b>			
Current and other assets	\$ 4,882,757	(1)	(1)
Capital assets	<u>1,947,216</u>	(1)	(1)
<b>Total assets</b>	<u>\$ 6,829,973</u>	(1)	(1)
<b>Liabilities</b>			
Current liabilities	\$ 3,836,144	(1)	(1)
Noncurrent liabilities	<u>231,865</u>	(1)	(1)
<b>Total liabilities</b>	<u>4,068,009</u>	(1)	(1)
<b>Net Assets</b>			
Invested in capital assets – net of related debt	1,914,500	(1)	(1)
Unrestricted	<u>847,464</u>	(1)	(1)
<b>Total net assets</b>	<u>2,761,964</u>	(1)	(1)
<b>Total liabilities and net assets</b>	<u>\$ 6,829,973</u>	(1)	(1)

(1) AACOG did not restate its 2002 financial statements in this first year of implementation of GASB Statement No. 34. Comparative information will be provided in future years.

The portion of AACOG's net assets, \$1,914,500, represents investments in capital assets net of related debt.

The balance of *unrestricted net assets*, \$847,464, may be used to meet AACOG's ongoing obligations in accordance with AACOG's fund designation and fiscal policies.

At the end of the current fiscal year, AACOG is able to report a positive balance in all categories of net assets.

*Analysis of AACOG's Operations*

The following table provides a summary of AACOG's operations for the year ended December 31, 2003. Governmental activities increased AACOG's net assets by \$521,162, accounting for 23.25% of the total growth in net assets.

**Table A-2  
AACOG's Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>
	<u>2003</u>	<u>2002</u>	
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 1,217,433	(1)	(1)
Operating grants and contributions	25,035,156	(1)	(1)
Capital grants and contributions	1,175,515	(1)	(1)
General revenues:			
Grants and contributions not restricted to specific programs	94,081	(1)	(1)
Investment earnings	3,665	(1)	(1)
Member dues	210,082	(1)	(1)
Miscellaneous	171	(1)	(1)
<b>Total revenues</b>	<u>27,736,103</u>	(1)	(1)
<b>Expenses</b>			
General Fund	41,957	(1)	(1)
AADC Fund	1,298,908	(1)	(1)
AADC Pass-Through Fund	4,012,223	(1)	(1)
Texas Department of Transportation	2,259,559	(1)	(1)
Alamo Area Agency on Aging	3,131,384	(1)	(1)
Bexar Area Agency on Aging	9,342,416	(1)	(1)
Criminal Justice	1,024,776	(1)	(1)
Environmental Quality	1,971,087		
Housing and Community Affairs	1,170,414		
911 Program	1,313,313		
Other	1,648,904		
<b>Total expenses</b>	<u>27,214,941</u>	(1)	(1)
<b>Increase in net assets</b>	521,162	(1)	(1)
<b>Net assets at beginning of year</b>	<u>2,240,802</u>	(1)	(1)
<b>Net assets at end of year</b>	<u>\$ 2,761,964</u>	(1)	(1)

(1) AACOG did not restate its 2002 financial statements in this first year of implementation of GASB Statement No. 34. Comparative information will be provided in future years.

## Financial Analysis of AACOG's Funds

### *Governmental Funds*

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

At the end of the current fiscal year, AACOG's governmental funds reported a combined ending fund balance of \$847,464. One hundred percent of this total amount, \$847,464, constitutes *unreserved fund balance*.

### *Capital Assets Administration*

AACOG's investment in capital assets for its governmental activities as of December 31, 2003 amounts to \$1,947,216 (net of accumulated depreciation). This investment in capital assets comprises furniture, fixtures, and equipment. Major capital assets occurring during the current fiscal year included the following:

**Table A-3**  
**AACOG's Change in Capital Assets –**  
**Governmental Activities**

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>
	<u>2003</u>	<u>2002</u>	
Furniture, fixtures, and equipment	\$ 3,219,084	(1)	(1)
Less accumulated depreciation	<u>1,271,868</u>	(1)	(1)
	<u>\$ 1,947,216</u>	(1)	(1)

- (1) AACOG did not restate its 2002 financial statements in this first year of implementation of GASB Statement No. 34. Comparative information will be provided in future years.

## Economic Factors

The 12 counties that make up our region all have unique character and appeal, as well as unique economic circumstances. The sections below summarize major components of our regional economy, giving an overview of the local and regional economies. AACOG's Board of Directors approved a \$23,265,955 million budget for the 2004 fiscal year. This is a 3.5% increase.

### *Overview of the Local Economy*

Our region consists of 12 counties. The Alamo Area Region has an overall unemployment rate of 5.03%, an average weekly wage of \$447, with 14.84% of the population living below the poverty level. The table below gives details of the economies of each county within our region by looking at the major factors affecting the economy, specifically as it relates to the individual citizens of our region.

**Table A-4  
Major Factors Affecting the Economy**

<u>County</u>	<u>Labor Force (1)</u>	<u>Unemployed (1)</u>	<u>Unemployment Rate (1)</u>	<u>Average Weekly Wage (3)</u>	<u>Population Below Poverty Level (2)</u>	<u>Percent Below Poverty Level (2)</u>
Atascosa	18,324	1,333	7.3%	\$ 453	7,701	20.2%
Bandera	7,911	308	3.9%	360	1,895	10.8%
Bexar	697,038	40,435	5.8%	541	215,736	15.9%
Comal	43,555	2,325	5.3%	476	6,585	8.6%
Frio	5,897	524	8.9%	388	4,091	29.0%
Gillespie	10,833	282	2.6%	476	2,067	10.2%
Guadalupe	48,326	2,279	4.7%	528	8,568	9.8%
Karnes	5,893	306	5.2%	415	2,575	21.9%
Kendall	17,345	550	3.2%	482	2,443	10.5%
Kerr	18,432	627	3.4%	444	6,074	14.5%
Medina	16,389	909	5.5%	420	5,764	15.4%
Wilson	16,355	760	4.6%	384	3,589	11.3%
	<u>906,298</u>	<u>50,638</u>			<u>267,088</u>	

- (1) Source: Texas Workforce 2003  
 (2) Source: 2000 Census, Summary File 3  
 (3) Source: www.aacog.dst.tx.us

## *Major Industries*

The economy of any region is driven by the industries and business that make up that region. The Alamo Area Region is no exception. The heartbeat of our economy is the industries that keep it going. The table below summarizes the major employment sectors and employers within each of our counties.

**Table A-5  
Major Employment Sectors and Employers**

<u>County</u>	<u>Major Employment Sectors</u>	<u>Major Employers*</u>
Atascosa	Trade, services, and local government	Pleasanton ISD, Wal-Mart, Tri-City Community Hospital, Poteet ISD, Lytle ISD
Bandera	Service, local government, and trade	Flying L Guest Ranch, Medina ISD, Bandera Electric Coop, Medina Home Inc., Bandera Nursing Center
Bexar	Service, local government, and trade	Fort Sam Houston ISD, USAA, Lackland AFB, H. B. Zachry, H. E. Butt Grocery Co., City of San Antonio
Comal	Trade, service, and manufacturing	Comal ISD, Wal-Mart Association, Inc., Schlitterbahn Waterpark, New Braunfels ISD, McKenna Health Management
Frio	Trade, services, and local government	Pearsall ISD, Texas Department of Criminal Justice, Dilley ISD, Outreach Health Community Care Services, Corrective Services Corporation
Gillespie	Trade, services, and local government	Hill Country Memorial Hospital, Fredericksburg ISD, H. E. Butt Grocery Co., Knopp Nursing Home, Inc., Wal-Mart
Guadalupe	Manufacturing, trade, and local government	Motorola, Inc., Seguin ISD, Schertz-Cibolo-Universal City ISD, Structural Metals, Guadalupe Valley
Karnes	Services, state government, and trade	Texas Department of Criminal Justice, Karnes City ISD, Kenedy ISD, Girling Health Care, Inc., Wackenhut Corrections Corporation
Kendall	Trade, services, and local government	Kendall County, Benefit Planners LTD., Mission Pharmacal Company, H. E. Butt Grocery Co., Fair Oaks Club Corporation

**Table A-5**  
**Major Employment Sectors and Employers**  
**(Continued)**

<u>County</u>	<u>Major Employment Sectors</u>	<u>Major Employers*</u>
Kerr	Services, trade, and local government	Kerrville ISD, Sid Peterson Memorial Hospital, Wal-Mart, VA Hospital, Ingram ISD
Medina	Local government, trade, and services	Strom Aviation, Inc., Medina Valley ISD, Texas Department of Criminal Justice, Hondo ISD, Devine ISD
Wilson	Local government, trade, and services	Floresville ISD, La Vernia ISD, Nurses in Touch, Inc., Floresville Memorial Hospital, Poth ISD

\* Source: [www.community.tded.state.tx.us](http://www.community.tded.state.tx.us)

***Future Economic Outlook***

The Alamo Area Region, like most regions in the state of Texas, has been affected by the recent economic downturn. AACOG receives most of its funding from state and federal sources which means the funding is secure, but can be reduced as determined by legislative priorities. However, we believe the Alamo Area Region is an emerging community whose quality of life serves as an excellent foundation for future growth and development through the cooperative capitalization of regional assets. The consistent low unemployment and growth of new industries mean the future looks as bright as ever for the Alamo Area Region. The regional cooperation that exists in this region only serves to enhance the positive outlook.

**Contacting AACOG's Financial Management**

This financial report is designed to provide a general overview of AACOG's finances for all those with an interest in the organization. Questions concerning any of the information provided in this report or requests for additional information should be directed to the Controller's Office, Alamo Area Council of Governments, 8700 Tesoro Drive, San Antonio, Texas 78209.



(This page intentionally left blank.)

*Basic Financial Statements*

Alamo Area Council of Governments

Statement of Net Assets

December 31, 2003

	<u>Primary Government</u>	<u>Governmental Activities</u>
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 1,000,500	
Accounts receivable:		
Grantors	3,828,954	
Other	33,345	
Deposits	10,265	
Prepaid items	9,693	
	<hr/>	
Total current assets	4,882,757	
Noncurrent assets:		
Capital assets:		
Furniture, fixtures, and equipment	3,219,084	
	<hr/>	
Total capital assets	3,219,084	
Less accumulated depreciation	1,271,868	
	<hr/>	
Total noncurrent assets, net	1,947,216	
	<hr/>	
<b>Total assets</b>	<u>\$ 6,829,973</u>	

*The accompanying notes are an integral part of this statement.*

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable:	
Trade	\$ 1,367,916
Grantor agencies	854,814
Due to fiduciary fund	10,318
Over-recovered employee benefits and indirect costs	218,243
Note payable – current portion	18,145
Deferred revenue	<u>1,366,708</u>
Total current liabilities	<u>3,836,144</u>
Noncurrent liabilities:	
Compensated absences	217,294
Notes payable	<u>14,571</u>
Total noncurrent liabilities	<u>231,865</u>
<b>Total liabilities</b>	<u>4,068,009</u>
<b>Net Assets</b>	
Invested in capital assets – net of related debt	1,914,500
Unrestricted	<u>847,464</u>
<b>Total net assets</b>	<u>\$ 2,761,964</u>

# Alamo Area Council of Governments

## Statement of Activities

Year Ended December 31, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Indirect Cost Allocation</u>	<u>Expenses After Allocation of Indirect Costs</u>
Primary governmental activities:			
General Fund	\$ 41,957	\$ -	\$ 41,957
AADC Fund	1,110,160	188,748	1,298,908
AADC Pass-Through Fund	4,012,223	-	4,012,223
Texas Department of Transportation	2,170,838	88,721	2,259,559
Alamo Area Agency on Aging	2,968,667	162,717	3,131,384
Bexar Area Agency on Aging	9,079,596	262,820	9,342,416
Criminal Justice	859,670	165,106	1,024,776
Environmental Quality	1,838,755	132,332	1,971,087
Housing and Community Affairs	1,124,265	46,149	1,170,414
911 Program	1,283,838	29,475	1,313,313
Other	1,488,644	160,260	1,648,904
Indirect costs	<u>1,236,328</u>	<u>(1,236,328)</u>	<u>-</u>
Total primary governmental activities	<u>\$ 27,214,941</u>	<u>\$ -</u>	<u>\$ 27,214,941</u>

*The accompanying notes are an integral part of this statement.*

<u>Program Revenues</u>			<u>Net Revenue and Changes in Net Assets</u>
<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>
\$ 1,873	\$ 40,412	\$ -	\$ 328
57,981	1,251,080	-	10,153
179,097	3,864,484	-	31,358
101,005	1,567,044	609,195	17,685
139,778	2,991,063	25,017	24,474
417,026	8,957,933	40,475	73,018
48,216	985,003	-	8,443
87,985	1,898,508	-	15,406
52,245	1,127,317	-	9,148
58,624	764,126	500,828	10,265
73,603	1,588,186	-	12,885
-	-	-	-
<u>\$ 1,217,433</u>	<u>\$ 25,035,156</u>	<u>\$ 1,175,515</u>	<u>213,163</u>

General revenues:

Grants and contributions not restricted to specific programs	94,081
Investment earnings	3,665
Member dues	210,082
Miscellaneous	171
Total general revenues	<u>307,999</u>
Increase in net assets	521,162
Net assets at beginning of year	<u>2,240,802</u>
Net assets at end of year	<u>\$ 2,761,964</u>

# Alamo Area Council of Governments

## Balance Sheet – Governmental Funds

Year Ended December 31, 2003

	<u>General Fund</u>	<u>AADC Fund</u>	<u>AADC Pass-Through Fund</u>
<b>Assets</b>			
Cash and investments	\$ 653,814	\$ 32,007	\$ -
Accounts receivable:			
Grantors	-	141,057	601,388
Other	(30,681)	-	-
Due from other funds	1,322,829	156,732	-
Deposits	10,265	-	-
Prepaid items	9,693	-	-
<b>Total assets</b>	<u>\$ 1,965,920</u>	<u>\$ 329,796</u>	<u>\$ 601,388</u>
<b>Liabilities</b>			
Accounts payable:			
Trade	\$ 192,161	\$ 156,114	\$ 66,855
Grantor agencies	-	-	-
Due to other funds	-	156,732	534,531
Due to fiduciary fund	10,318	-	-
Over-recovered employee benefits and indirect costs	218,243	-	-
Accrued liabilities	217,294	-	-
Deferred revenue	480,988	16,402	2
<b>Total liabilities</b>	<u>1,119,004</u>	<u>329,248</u>	<u>601,388</u>
<b>Fund Balances</b>			
Unreserved – reported in:			
General Fund	846,916	548	-
<b>Total fund balances</b>	<u>846,916</u>	<u>548</u>	<u>-</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,965,920</u>	<u>\$ 329,796</u>	<u>\$ 601,388</u>

<u>Texas Department of Transportation</u>	<u>Alamo Area Agency on Aging</u>	<u>Bexar Area Agency on Aging</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 314,679	\$ 1,000,500
688,269	333,124	971,878	1,093,238	3,828,954
2,910	-	-	61,116	33,345
13,287	-	-	196,542	1,689,390
-	-	-	-	10,265
-	-	-	-	9,693
<u>704,466</u>	<u>333,124</u>	<u>971,878</u>	<u>1,665,575</u>	<u>6,572,147</u>
\$ 274,719	\$ 111,874	\$ 191,846	\$ 374,347	\$ 1,367,916
62,046	-	706,136	86,632	854,814
306,176	214,051	55,505	422,395	1,689,390
-	-	-	-	10,318
-	-	-	-	218,243
-	-	-	-	217,294
61,525	7,199	18,391	782,201	1,366,708
<u>704,466</u>	<u>333,124</u>	<u>971,878</u>	<u>1,665,575</u>	<u>5,724,683</u>
-	-	-	-	847,464
-	-	-	-	847,464
<u>704,466</u>	<u>333,124</u>	<u>971,878</u>	<u>1,665,575</u>	<u>6,572,147</u>



(This page intentionally left blank.)

## Alamo Area Council of Governments

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

Year Ended December 31, 2003

Total fund balances – governmental funds balance sheet	\$ 847,464
Amounts reported for governmental activities in the statement of net assets are different because:	
Record beginning fixed assets not in the fund statements	2,477,599
Record beginning accumulated depreciation not in the fund statements	(1,003,182)
Record notes payable not in the fund statements	(60,656)
Reverse capital outlay expenditures and record current asset additions	741,485
Record the current year depreciation expense	(268,686)
Reverse current year note principal payments	<u>27,940</u>
Net assets of governmental activities – statement of net assets	<u>\$ 2,761,964</u>

*The accompanying notes are an integral part of this statement.*

# Alamo Area Council of Governments

## Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended December 31, 2003

	<u>General Fund</u>	<u>AADC Fund</u>	<u>AADC Pass-Through Fund</u>
<b>Revenues</b>			
Federal	\$ -	\$ 5,009,999	\$ 214,750
State	-	14,215	-
Local	4,021	-	-
Delegate agency:			
Cash match	-	-	-
In-kind	-	-	-
Program income	-	-	-
Program income	29,754	81	-
State planning grant	94,081	-	-
Member dues	210,082	-	-
Interest income	3,665	-	-
Other	171	-	-
	<u>341,774</u>	<u>5,024,295</u>	<u>214,750</u>
<b>Total revenues</b>			
	<u>341,774</u>	<u>5,024,295</u>	<u>214,750</u>
<b>Expenditures</b>			
<b>Current:</b>			
General Fund	69,484	-	-
AADC Fund	-	1,286,112	-
AADC Pass-Through Fund	-	-	4,011,664
Texas Department of Transportation	-	-	-
Alamo Area Agency on Aging	-	-	-
Bexar Area Agency on Aging	-	-	-
Criminal Justice	-	-	-
Environmental Quality	-	-	-
Housing and Community Affairs	-	-	-
911 Program	-	-	-
Other	-	-	-
	<u>69,484</u>	<u>1,286,112</u>	<u>4,011,664</u>
<b>Total expenditures</b>			
	<u>69,484</u>	<u>1,286,112</u>	<u>4,011,664</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>272,290</u>	<u>3,738,183</u>	<u>(3,796,914)</u>
<b>Other Financing Sources and (Uses)</b>			
Operating transfers out	(251,719)	(3,796,913)	-
Operating transfers in	-	58,582	3,796,914
	<u>(251,719)</u>	<u>(3,738,331)</u>	<u>3,796,914</u>
<b>Total other financing sources and (uses)</b>			
	<u>(251,719)</u>	<u>(3,738,331)</u>	<u>3,796,914</u>
<b>Excess (deficiency) of revenues and other sources over expenditures and other uses</b>	20,571	(148)	-
<b>Fund balances at beginning of year</b>	<u>826,345</u>	<u>696</u>	<u>-</u>
<b>Fund balances at end of year</b>	<u>\$ 846,916</u>	<u>\$ 548</u>	<u>\$ -</u>

*The accompanying notes are an integral part of this statement.*

<u>Texas Department of Transportation</u>	<u>Alamo Area Agency on Aging</u>	<u>Bexar Area Agency on Aging</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,187,232	\$ 1,722,564	\$ 4,753,049	\$ 2,052,550	\$ 14,940,144
587,579	113,367	367,259	4,524,002	5,606,422
348,240	-	3,670	547,239	903,170
274,899	259,791	3,128,865	6,364	3,669,919
-	582,190	436,720	72,106	1,091,016
13	385,474	578,694	-	964,181
61,746	2,942	-	158,729	253,252
-	-	-	-	94,081
-	-	-	-	210,082
-	-	-	-	3,665
-	-	-	-	171
<u>2,459,709</u>	<u>3,066,328</u>	<u>9,268,257</u>	<u>7,360,990</u>	<u>27,736,103</u>
-	-	-	-	69,484
-	-	-	-	1,286,112
-	-	-	-	4,011,664
2,471,247	-	-	-	2,471,247
-	3,130,233	-	-	3,130,233
-	-	9,390,680	-	9,390,680
-	-	-	1,087,687	1,087,687
-	-	-	1,965,535	1,965,535
-	-	-	1,167,005	1,167,005
-	-	-	1,503,374	1,503,374
-	-	-	1,632,659	1,632,659
<u>2,471,247</u>	<u>3,130,233</u>	<u>9,390,680</u>	<u>7,356,260</u>	<u>27,715,680</u>
<u>(11,538)</u>	<u>(63,905)</u>	<u>(122,423)</u>	<u>4,730</u>	<u>20,423</u>
(3,210)	-	-	(55,372)	(4,107,214)
<u>14,748</u>	<u>63,905</u>	<u>122,423</u>	<u>50,642</u>	<u>4,107,214</u>
<u>11,538</u>	<u>63,905</u>	<u>122,423</u>	<u>(4,730)</u>	<u>-</u>
-	-	-	-	20,423
-	-	-	-	827,041
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 847,464</u>

# Alamo Area Council of Governments

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Net Assets

Year Ended December 31, 2003

Net changes in fund balance – total governmental funds	\$ 20,423
Adjustments for the statement of activities:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$741,485 exceeded depreciation (\$268,686) in the current period	472,799
Current year note principal payments are not reported as expenditures in the statement of activities, but as reductions in debt in the statement of net assets	<u>27,940</u>
Change in net assets of governmental activities	<u>\$ 521,162</u>

*The accompanying notes are an integral part of this statement.*

**Alamo Area Council of Governments**

**Statement of Fiduciary Net Assets – Fiduciary Funds**

Year Ended December 31, 2003

	<u>Agency Fund</u>
	<u>Employee's Fund and Holiday Savings Plan</u>
<b>Assets</b>	
Current assets:	
Cash	\$ <u>10,318</u>
<b>Total assets</b>	<u>10,318</u>
<b>Liabilities</b>	
Current liabilities:	
Due from General Fund	<u>10,318</u>
<b>Total liabilities</b>	<u>10,318</u>
<b>Net Assets</b>	
<b>Total net assets</b>	\$ <u><u>-</u></u>

*The accompanying notes are an integral part of this statement.*

(This page intentionally left blank.)

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note A – Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying basic financial statements is as follows:

#### 1. General

Alamo Area Council of Governments (“AACOG”) is a voluntary association of local governments. Established in 1967, AACOG assists local governments in planning for common needs, cooperating for mutual benefit, and coordinating for systematic development. Operations of AACOG are a 12-county area in South Central Texas. AACOG is a political subdivision of the state of Texas under enabling legislation, Local Government Code, Chapter 391, Regional Planning Commission. It does not have any legislative or taxing authority and is not subject to income taxes. Its basic operations are financed by membership dues and financial assistance provided by the state of Texas. These funds are supplemented by federal and state-administered grant funds awarded to AACOG for specific programs.

#### 2. Reporting Entity

The reporting entity consists of the primary government, AACOG, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s basic financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization’s governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.



# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note A – Summary of Significant Accounting Policies (continued)

In accordance with GASB requirements, AACOG has reviewed other entities and activities for possible inclusion in the reporting entity. Based on this review, the following organization has been included in the financial reporting entity:

#### *Blended Component Unit*

During 1995, AACOG formed a nonprofit organization, Alamo Area Development Corporation (“AADC”). AADC is governed by a Board of five directors which are also members of the governing body of AACOG. During 1998, AADC contracted with Alamo Workforce Development, Inc. to administer various grant programs, consisting primarily of Texas Workforce Commission grants, as presented on the accompanying Schedule of Expenditures of Federal and State Awards. AADC is presented as a Special Revenue Fund in the financial statements. Complete financial statements may be obtained at the entity’s administrative office.

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

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which generally are supported by intergovernmental revenue, are reported separately from *business-like activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note A – Summary of Significant Accounting Policies (continued)

#### 4. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, AACOG considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Grant revenue, state financial assistance, membership dues, and interest are susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by AACOG.

AACOG has the following major governmental funds:

- *General Fund*: is AACOG's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- *Alamo Area Development Corporation Fund*: is used to account for federal grants awarded to AADC.
- *Alamo Area Development Corporation Pass-Through Fund*: is used to account for federal grants awarded to AADC and subsequently passed through to AACOG.
- *Texas Department of Transportation Fund*: is used to account for federal funds awarded to AACOG by the Texas Department of Transportation.
- *Alamo Area Agency on Aging*: is used to account for federal funds awarded to AACOG by the Texas Department on Aging.

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note A – Summary of Significant Accounting Policies (continued)

- *Bexar Area Agency on Aging*: is used to account for federal funds awarded to AACOG by the Texas Department on Aging.

Additionally, AACOG reports the following fund type:

- *Agency Funds*: These funds are used to report other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations or other governments.

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

Amounts reported as *program revenue* include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenue* rather than as program revenue.

### 5. Annual Budgets

AACOG prepares annual operating budgets for the General Fund and Special Revenue Funds which are approved by the Board of Directors. They are prepared from the best information available and are subject to change since the primary funding sources of AACOG are federal, state, and local grants whose grant periods may or may not coincide with AACOG's fiscal year. Also, the grant amounts may change or additional grants may be added due to grant funding agency governments; therefore, grant amounts awarded have to be converted to AACOG's fiscal year and grant revenue amounts estimated may change. AACOG has no taxing or oversight authority.

Accordingly, the budgetary process is not one which culminates in an appropriation bill or ordinance enacted into law. Further, although the annual budgets are prepared and approved by the Board, greater emphasis is placed on complying with grant terms and conditions on a grant-by-grant basis for the various grants awarded to AACOG. The annual budget is a management tool that is used to facilitate analysis of financial operations for the fiscal year. Since grant years differ from AACOG's year-end, the budgets for the Special Revenue Funds span across more than one year. Because of this, only the General Fund budget is presented.

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note A – Summary of Significant Accounting Policies (continued)

#### 6. Indirect Costs and Fringe Benefit and Leave Pool Allocations

General administrative and employee fringe benefits costs are recorded in cost pools. The costs are partially recovered from Special Revenue Funds based on negotiated indirect and fringe benefit rates. These rates are negotiated with the Texas Department on Aging, which is AACOG's designated state cognizant agency for the negotiation and approval of indirect and fringe benefit rates for use on federal grants. Indirect costs are defined by the U.S. Office of Management and Budget Circular A-87 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." AACOG uses a fixed-rate plus carry-forward provision. The rates are submitted with the cognizant agency on an annual basis, based on projected costs submitted on a cost allocation plan for indirect fringe benefit and leave pool costs. The negotiated rates approved are used for billing purposes. Final costs not recovered by the billing rates are allowed by the oversight federal agency to be recovered in succeeding years.

#### 7. Investments

Investments consist of accounts in the Texas Local Government Investment Pool which are valued at fair value.

#### 8. Due From Grantor Agencies

Due from grantor agencies consists of receivables for reimbursement from federal, state, and local agencies under various grants and programs. Management believes all amounts are collectible.

#### 9. Over-Recovered Employee Benefits and Indirect Costs

Over-recovered employee benefits and indirect costs consist of costs incurred for employee benefits and general administrative costs. This liability will be reduced in succeeding years through AACOG's indirect and fringe benefit rate. Total employee benefits and indirect costs of \$218,243 were over-recovered as of December 31, 2003. The total over-recovered employee benefits and indirect costs amount does not include \$217,294 of unused vacation liability (see note 10 below).

**Alamo Area Council of Governments**

**Notes to Financial Statements**

December 31, 2003

**Note A – Summary of Significant Accounting Policies (continued)**

**10. Vacation and Personal Leave**

AACOG allows employees to accumulate and carry forward a maximum of 280 hours of vacation leave. Upon termination, AACOG pays accrued vacation leave up to 280 hours. Personal leave is used for an employee's illnesses and other specified personal time off. Personal leave is accrued based on years of service. At the end of each calendar year, unused personal leave may be converted to vacation or paid in cash. At December 31, 2003, AACOG had a liability for unused vacation of \$217,294. All accrued leave is included in the General Fund because any noncurrent portion would not be considered material.

**11. Deferred Revenue**

Deferred revenue arises principally from grant proceeds that exceed current grant expenditures and are not considered "available" to finance expenditures of the current period.

**12. Capital Assets**

Capital assets, which include equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Equipment of the primary government is depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures, and equipment	3-15 years

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note A – Summary of Significant Accounting Policies (continued)

#### 13. Revenue

*Federal and State Grant Revenue* – Generally, grant revenue is earned and recognized when program expenditures have been incurred in conformance with grant agreements.

*State Planning Awards* – State planning awards revenue is recognized upon notification of the award amount since the amounts are measurable and collectible within the current period.

*Member Government Dues* – Member dues are set annually by AACOG Bylaws and are recognized as revenue when assessed because they are measurable and collectible within the current period.

*Local Contributed Cash* – Contributions from local governments and other program participants are recognized as revenue when grant expenditures are incurred.

*In-Kind Contributed Services* – Contributed services are provided by individual, private organizations, and local governments. Such services are used to match federal funding on various grants and are recorded as revenue and expenditures in accordance with the requirements of the individual grants. Contributed services are recorded at the estimated fair value at time of receipt of service.

#### 14. 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.

#### 15. Implementation of New Standards – GASB 34, 37, and 38

In the current year, AACOG implemented the following new standards:

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, establishes new accounting and financial reporting standards for external financial reporting by state and local governments in order to enhance the understandability and usefulness of the financial reports to citizenry, legislative and oversight bodies, and investors and creditors.

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note A – Summary of Significant Accounting Policies (continued)

GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus and Amendment of GASB Statements No. 21 and No. 34*, revises the escheat reporting requirements, limits the topics discussed in Management’s Discussion and Analysis, eliminates capitalization of construction-period interest requirement on capital assets used in governmental activities and further clarifies provisions of GASB No. 34.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, modifies, establishes, and rescinds certain financial statement disclosure requirements.

The implementation of these standards had the following impact in the accompanying financial statements:

- Presentation of Management’s Discussion and Analysis.
- Presentation of government-wide financial statements.
- Major funds presentation for AACOG’s fund-level statements as defined by the above GASB statements.
- Reporting certain additional footnote disclosures.
- Changing beginning equity for the inclusion of general capital assets and general long-term debt.
- Changing beginning equity for depreciation of general capital assets.

Because of the implementation of GASB Statement No. 34, certain adjustments were made to beginning equity as follows:

	<u>Governmental Activities</u>
Fund balance/retained earnings at December 31, 2002 – as previously reported	\$ 827,041
Capital assets	2,477,599
Beginning accumulated depreciation	(1,003,182)
Long-term liabilities	<u>(60,656)</u>
Net assets at January 1, 2003	<u>\$ 2,240,802</u>

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note B – Cash and Investments

#### *Cash*

AACOG's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with AACOG's agent bank, approved pledged securities in an amount sufficient to protect AACOG's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash includes amounts in demand deposits at the depository bank. At December 31, 2003, the carrying amount of AACOG's bank deposits was \$596,787 and the bank balance was \$710,630. AACOG also had \$600 in petty cash. AACOG's cash deposits at December 31, 2003 were entirely covered by FDIC insurance or by pledged collateral held by AACOG's agent bank. The deposits were collateralized in accordance with Texas law.

Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1: Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2: Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3: Deposits which are not collateralized.

Based on these three levels of risk, the cash deposits are classified as Category 1.



# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note B – Cash and Investments (continued)

#### *Investments*

The Public Funds Investment Act (“Act”) (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires AACOG to adopt, implement, and publicize an investment policy. That policy must address the following areas: safety of principal and liquidity, portfolio diversification, allowable investments, acceptable risk levels, expected rates of return, maximum allowable stated maturity of portfolio investments, maximum average dollar-weighted maturity allowable based on the stated maturity date for the portfolio, investment staff quality and capabilities, and bid solicitation preferences for certificates of deposit. Statutes authorize AACOG to invest in obligations of the U.S. Treasury, certain U.S. agencies, and state of Texas certificates of deposit, certain municipal securities, money market savings accounts, repurchase agreements, bankers’ acceptances, mutual funds, investment pools, guaranteed investment contracts, and common trust funds. The Act also requires AACOG to have independent auditors perform test procedures related to investment practices as provided by the Act. AACOG is in substantial compliance with the requirements of the Act and with local policies.

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1: Investments which are insured, registered, or held by AACOG or by its agent in AACOG’s name.
- Category 2: Investments which are uninsured and unregistered held by the counterparty’s trust department or agent in AACOG’s name.
- Category 3: Uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in AACOG’s name.

AACOG’s temporary investments at December 31, 2003, which were recorded at cost, were as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Investments not subject to categorization:		
Investment pools	\$ <u>413,431</u>	\$ <u>413,431</u>

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note C – Receivables

Receivables as of year-end for AACOG’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<b>Accounts Receivable</b>		<b>Total</b>
	<b>Grants</b>	<b>Other</b>	
General Fund	\$ -	\$ (30,681)	\$ (30,681)
AADC Fund	601,388	-	601,388
AADC Pass-Through Fund	141,057	-	141,057
Texas Department of Transportation	688,269	2,910	691,179
Alamo Area Agency on Aging	333,124	-	333,124
Bexar Area Agency on Aging	971,878	-	971,878
Other Governmental Funds	1,093,238	61,116	1,154,354
	\$ 3,828,954	\$ 33,345	\$ 3,862,299

### Note D – Interfund Balances and Activities

#### 1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2003 consisted of the following:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Special Revenue Funds	\$ 1,322,829
Special Revenue Funds	Special Revenue Funds	366,561
		\$ 1,689,390

Receivables in the General Fund represent amounts paid for grant programs, prior to receiving reimbursement on these programs. All amounts are scheduled to be repaid within one year.

**Alamo Area Council of Governments**

Notes to Financial Statements

December 31, 2003

**Note D – Interfund Balances and Activities (continued)**

**2. Transfers To and From Other Funds**

Transfers to and from other funds at December 31, 2003 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Special Revenue Funds	\$ 251,719	To cover the deficit in fund balance
AADC Fund	AADC Pass-Through Fund	3,796,913	To record amount passed through to AACOG
Texas Department of Transportation	AADC Fund	3,210	To reimburse for expenditures made from AADC Fund
Other Governmental Funds	AADC Fund	55,372	To reimburse for expenditures made from AADC Fund
		<u>\$ 4,107,214</u>	

**Note E – Capital Assets**

Capital asset activity for the year ended December 31, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Furniture, fixtures, and equipment	\$ 2,477,599	\$ 741,485	\$ -	\$ 3,219,084
Total capital assets being depreciated	2,477,599	741,485	-	3,219,084
Less accumulated depreciation	<u>1,003,182</u>	<u>268,686</u>	<u>-</u>	<u>1,271,868</u>
	<u>\$ 1,474,417</u>	<u>\$ 472,799</u>	<u>\$ -</u>	<u>\$ 1,947,216</u>

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note E – Capital Assets (continued)

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

Governmental activities:

General Fund	\$ 413
AADC Fund	12,796
AADC Pass-Through Fund	39,527
Texas Department of Transportation	22,292
Alamo Area Agency on Aging	30,849
Bexar Area Agency on Aging	92,037
Criminal Justice	10,641
Environmental Quality	19,418
Housing and Community Affairs	11,530
911 Program	12,938
Other	<u>16,245</u>
 Total depreciation expense – governmental activities	 <u>\$ 268,686</u>

### Note F – Notes Payable

Notes payable outstanding as of December 31, 2003 consisted of the following:

Lender	Interest Rate	Maturity Date	Original Amount Issued	Description of Collateral	Balance Outstanding
Bank One	8.5%	02/08/04	\$ 19,114	Vehicle	\$ 673
Bank One	8.5%	11/28/05	52,553	Vehicle	25,182
Bank One	8.5%	07/11/05	13,000	Vehicle	<u>6,861</u>
					<u>\$ 32,716</u>

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note F – Notes Payable (continued)

Changes in notes payable during the year are summarized below:

	<u>Balance Outstanding January 1, 2003</u>	<u>Issued During Year</u>	<u>Retired During Year</u>	<u>Balance Outstanding December 31, 2003</u>	<u>Due Within One Year</u>
Notes payable	\$ <u>60,656</u>	\$ <u>-</u>	\$ <u>27,940</u>	\$ <u>32,716</u>	\$ <u>18,145</u>

The notes payable mature through 2005 as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2004	\$ 18,145
2005	<u>14,571</u>
	<u>\$ 32,716</u>

### Note G – Operating Leases

AACOG is obligated under certain leases accounted for as operating leases. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2003:

<u>Year Ending December 31,</u>	<u>Total</u>
2004	\$ 472,732
2005	502,028
2006	518,008
2007	<u>442,770</u>
	<u>\$ 1,935,538</u>

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### **Note H – Deferred Compensation Plan**

AACOG has adopted two separate U.S. Internal Revenue Code Section 457 State and Local Government Employee Deferred Compensation Plans. One is sponsored by the National Association of Counties and administered by the Public Employee Benefit Services Corporation. The other is administered by the ICMA Retirement Corporation. The plans are voluntary, intended solely for the benefit of the employees and their beneficiaries, and are designed primarily to allow tax-free deferral of a portion of an employee's salary. For each employee, AACOG contributes 0.85% toward his or her plan and matches 50% of the employee's contribution up to 3.85%.

### **Note I – Employee Pension Plan**

#### ***Defined Benefit Plan***

AACOG provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 535 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a comprehensive annual financing report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS State Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

#### ***Plan Description***

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS ("TCDRS Act"). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more years. Members are vested after 10 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note I – Employee Pension Plan (continued)

#### *Funding Policy*

The employer has elected the annually determined contribution rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 6.00% for calendar year 2003. The contribution rate payable by the employee is the rate of 4.00% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

#### *Annual Pension Cost*

For the employer's accounting year ending December 31, 2003, the annual pension cost for the TCDRS plan for its employees was \$329,297, and the actual contributions were \$329,297.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2002, the basis for determining the contribution rate for calendar year 2003. The December 31, 2002 actuarial valuation is the most recent valuation.

### Note J – Delegate Agency Costs and Contingencies

AACOG contracts with various local governments and other agencies to perform specific services under grants awarded to it. Disbursements to these agencies are made based on monthly performance or expenditure reports. Each sub-grantee expending in excess of \$300,000 in federal awards is required to have an independent audit of these funds in accordance with the requirements of the Single Audit Act of 1984 and submit a copy of the report to AACOG. If such audit report discloses expenditures or performance not in accordance with the grant agreements, the grantor agency could disallow the cost reimbursement and require reimbursement of the disallowed costs. AACOG generally has the right of recovery from sub-grantees for disallowed costs. For the year ended December 31, 2003, AACOG had not received all the audit reports due from its sub-grantees. However, based on prior experience, management does not believe AACOG will incur any significant losses from audit disallowances.

# Alamo Area Council of Governments

## Notes to Financial Statements

December 31, 2003

### Note K – Risk Management

AACOG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which AACOG carries insurance. There have been no significant reductions in insurance coverage for these risks of loss since the prior year, and there have been no settlements in excess of the insurance coverage for any of the past three fiscal years.

AACOG contracts with the Texas Municipal League ("TML") Intergovernmental Risk Pool to provide for its workers' compensation, general and auto liability, and property insurance coverage. Contributions are set annually by TML.

### Note L – Excess of Expenditures Over Appropriations

The budget should not be exceeded in a major functional expenditure category. However, the following budget overruns were noted:

	<u>Budget</u>	<u>Actual</u>	<u>Overrun</u>
General Fund:			
Office supplies	\$ 300	\$ 794	\$ (494)
Communication	126	156	(30)
Other	-	21	(21)

The above overruns are due to an underestimation of costs in the functional categories.



(This page intentionally left blank.)

## *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

## Alamo Area Council of Governments

### Schedule of Funding Progress – Texas County and District Retirement System

Year Ended December 31, 2003

#### Trend Information for the Retirement Plan for the Employees of Alamo Area Council of Governments

Accounting Year Ending	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
12/31/00	\$288,312	100%	-
12/31/01	294,169	100%	-
12/31/02	328,587	100%	-
12/31/03	329,297	100%	-

*Transition Disclosure* – It was determined in accordance with GASB Statement No. 27 that the pension liability was zero at the transition to that statement effective at the beginning of this accounting year, because all actuarially required contributions for the accounting years beginning in 1987 up to the beginning of this accounting year have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at transition and the previously reported liability is zero.

#### Schedule of Funding Progress for the Retirement Plan for the Employees of Alamo Area Council of Governments

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") (b)	Unfunded AAL ("UAAL") (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1996	\$1,062,926	\$1,945,020	\$882,094	54.65%	\$1,535,215	57.46%
1997 (2)	1,301,945	2,161,564	859,619	60.23%	1,697,342	50.65%
1998	1,602,737	2,446,830	844,093	65.50%	2,085,171	40.48%
1999	1,927,029	2,714,483	787,454	70.99%	2,644,767	29.77%
2000	2,294,860	3,060,598	765,738	74.98%	2,968,433	25.80%
2001	2,812,495	3,642,252	829,757	77.22%	4,390,848	18.90%
2002	3,281,767	4,181,052	899,285	78.49%	4,686,489	19.19%

- (1) The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.
- (2) Revised economic and demographic assumptions due to an experience review were reflected in this valuation.

## Alamo Area Council of Governments

### Note to Schedule of Funding Progress – Texas County and District Retirement System

Year Ended December 31, 2003

#### Note A – Retirement Plan

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 1998, the basis for determining the contribution rate for calendar year 2000. The December 31, 2002 actuarial valuation is the most recent valuation.

#### Actuarial Valuation Information

Actuarial valuation date	12/31/00	12/31/01	12/31/02
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of open payroll, open	Level percentage of open payroll, open	Level percentage of open payroll, open
Amortization period in years	20.0	20.0	20.0
Asset valuation method	Long-term appreciation for adjustment	Long-term appreciation for adjustment	Long-term appreciation for adjustment
Actuarial assumptions:			
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.90%	5.50%	5.50%
Inflation	4.00%	3.50%	3.50%
Cost-of-living adjustments	-	-	-

\*Includes inflation at the stated rate

# Alamo Area Council of Governments

## Budgetary Comparison Schedule – General Fund

Year Ended December 31, 2003

	Budgeted Amounts		2003 Actual (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Amended		
<b>Revenues</b>				
Local revenue	\$ -	\$ -	\$ 4,021	\$ (4,021)
State planning grant	182,148	182,148	94,081	88,067
Member dues	210,907	210,907	210,082	825
Interest income	4,358	4,358	3,665	693
Program income	29,753	29,753	29,754	(1)
Other	-	-	171	(171)
	<u>427,166</u>	<u>427,166</u>	<u>341,774</u>	<u>85,392</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
<b>Current:</b>				
Personnel	6,697	6,697	5,509	1,188
Fringe	1,741	1,741	1,535	206
Contractual	46,100	46,100	4,540	41,560
Travel in region	30,001	30,001	14,947	15,054
Rent	186	186	172	14
Office supplies	300	300	794	(494)
Duplication/printing/reproduction	500	500	177	323
Communication	126	126	156	(30)
Postage	300	300	9	291
Meeting other	9,600	9,600	9,049	551
Professional dues	3,000	3,000	2,822	178
Other	-	-	21	(21)
<b>Debt service:</b>				
Principal retirement and interest charges	29,753	29,753	29,753	-
	<u>128,304</u>	<u>128,304</u>	<u>69,484</u>	<u>58,820</u>
<b>Total expenditures</b>				
	<u>298,862</u>	<u>298,862</u>	<u>272,290</u>	<u>26,572</u>
<b>Excess of revenues over expenditures</b>				
	<u>298,862</u>	<u>298,862</u>	<u>272,290</u>	<u>26,572</u>
<b>Other Financing Uses</b>				
Operating transfers out	(298,862)	(298,862)	(251,719)	(47,143)
	<u>(298,862)</u>	<u>(298,862)</u>	<u>(251,719)</u>	<u>(47,143)</u>
<b>Total other financing uses</b>				
	<u>(298,862)</u>	<u>(298,862)</u>	<u>(251,719)</u>	<u>(47,143)</u>
<b>Net change in fund balances</b>	-	-	20,571	(20,571)
<b>Fund balances at beginning of year</b>	826,345	826,345	826,345	-
	<u>826,345</u>	<u>826,345</u>	<u>826,345</u>	<u>-</u>
<b>Fund balances at end of year</b>	\$ 826,345	\$ 826,345	\$ 846,916	\$ (20,571)
	<u>\$ 826,345</u>	<u>\$ 826,345</u>	<u>\$ 846,916</u>	<u>\$ (20,571)</u>

*Other Supplemental Schedules*

# Alamo Area Council of Governments

## Schedule of Indirect Costs

Year Ended December 31, 2003

Personnel	\$ 805,252
Employee benefits	224,137
Other contract services	104,847
Travel	18,605
Rent administration	69,684
Rent	399,014
Supplies	86,174
Computer services	95
Equipment	25,727
Insurance and bonding	7,163
Public notices	1,320
Printing and reproduction	23,232
Repairs and maintenance	25,526
Employee recruitment	955
Communications	71,958
Postage	41,795
Meetings – other	6,916
Training in region	322
Publications	348
Professional dues	28,041
Equipment rental	42,407
Tuition – staff	4,122
	<hr/>
Total indirect costs	1,987,640
Less administration cost received	<hr/> 795,233
Net indirect costs	1,192,407
Actual indirect costs recovered	(1,236,387)
Cumulative over-recovery of indirect costs per 2002 audit	<hr/> (75,288)
Accumulated cost over-recovery	<hr/> <hr/> \$ (119,268)

**Alamo Area Council of Governments**

**Schedule of Employee Benefits (Fringe and Release Time)**

Year Ended December 31, 2003

Benefits:	
FICA	\$ 416,712
Group life insurance	92,950
Unemployment insurance	12,932
Workers' compensation	22,046
Health insurance	588,574
Retirement	431,262
Release time	<u>703,395</u>
Total employee benefits	2,267,871
Actual employee benefits recovered	(2,155,614)
Cumulative over-recovery of employee benefits per 2002 audit	<u>(211,232)</u>
Accumulated cost over-recovery	\$ <u><u>(98,975)</u></u>

**Note**

At December 31, 2003, AACOG had a liability for unused vacation of \$217,294, which is not included in the above calculation.



(This page intentionally left blank.)

## Single Audit Section

(This page intentionally left blank.)



**PADGETT, STRATEMANN & CO., L.L.P.**

Certified Public Accountants and Business Advisors

Independent Auditors' Report on Compliance  
and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards*

To the Board of Directors  
Alamo Area Council of Governments  
San Antonio, Texas

We have audited the financial statements of Alamo Area Council of Governments ("AACOG") as of and for the year ended December 31, 2003, and have issued our report thereon dated April 9, 2004. 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.

***Compliance***

As part of obtaining reasonable assurance about whether AACOG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-1. In addition, we also noted certain immaterial instances of noncompliance, which we have reported to management of AACOG in a separate letter dated April 9, 2004.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered AACOG's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial

100 N.E. Loop 410, Suite 1100, San Antonio, Texas 78216 • [www.padgett-cpa.com](http://www.padgett-cpa.com)  
Phone (210) 828-6281 • (800) 879-4966 • Fax (210) 826-8606

*An Independently Owned Member of The McGladrey Network Worldwide Services through RSM International*

reporting. However, we noted certain matters involving the internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect AACOG's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-1.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe that the reportable condition described above is not a material weakness.

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

*Padgett, Stratanman & Co., L.L.P.*

Certified Public Accountants  
April 9, 2004



**PADGETT, STRATEMANN & CO., L.L.P.**

Certified Public Accountants and Business Advisors

Independent Auditors' Report on Compliance With  
Requirements Applicable to Each Major  
Program and Internal Control Over Compliance  
in Accordance With OMB Circular A-133  
and the State of Texas Single Audit Circular Issued  
by the Office of the Governor of the State of Texas

To the Board of Directors  
Alamo Area Council of Governments  
San Antonio, Texas

***Compliance***

We have audited the compliance of Alamo Area Council of Governments ("AACOG") 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*, issued by the Office of the Governor of the State of Texas that are applicable to each of its major federal and state programs for the year ended December 31, 2003. AACOG'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 AACOG's management. Our responsibility is to express an opinion on AACOG's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* and the State of Texas Single Audit Circular, issued by the Office of the Governor of the State of Texas. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes

100 N.E. Loop 410, Suite 1100, San Antonio, Texas 78216 • [www.padgett-cpa.com](http://www.padgett-cpa.com)  
Phone (210) 828-6281 • (800) 879-4966 • Fax (210) 826-8606

*An Independently Owned Member of The McGladrey Network Worldwide Services through RSM International*

examining, on a test basis, evidence about AACOG'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 on AACOG's compliance with those requirements.

In our opinion, AACOG complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended December 31, 2003. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-1.

### *Internal Control Over Compliance*

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect AACOG's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-1.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe the reportable condition described above is not a material weakness. We have also noted other matters involving the internal control over compliance, which we have reported to management of AACOG in a separate letter dated April 9, 2004.

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

*Padgett, Strutzmann & Co., L.L.P.*

Certified Public Accountants

April 9, 2004



# Alamo Area Council of Governments

## Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2003

Project Number	Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Expenditures	Pass-Through Expenditures
<b>Alamo Area Council of Governments Grants</b>				
<u>U.S. Department of Health and Human Services:</u>				
2004-B	Passed Through Administration on Aging Special Programs for the Aging – Title IV and Title II Discretionary Projects	93.048	\$ 2,501	\$ -
	Total Passed Through Administration on Aging Special Programs for the Aging		<u>2,501</u>	<u>-</u>
<u>U.S. Department of Health and Human Services:</u>				
Passed Through Texas Department on Aging:				
2003-A	Special Programs for the Aging – Title VII, Chapter 3 Programs for Prevention	93.041	11,014	-
2004-A	Special Programs for the Aging – Title VII, Chapter 3 Programs for Prevention	93.041	9,544	-
2003-B	Special Programs for the Aging – Title VII, Chapter 3 Programs for Prevention	93.041	13,398	-
2004-B	Special Programs for the Aging – Title VII, Chapter 3 Programs for Prevention	93.041	14,118	-
2003-A	Special Programs for the Aging – Title VII, Chapter 2 Long Term Care	93.042	69,157	-
2004-A	Special Programs for the Aging – Title VII, Chapter 2 Long Term Care	93.042	2,665	-
2003-B	Special Programs for the Aging – Title VII, Chapter 2 Long Term Care	93.042	37,908	-
2004-B	Special Programs for the Aging – Title VII, Chapter 2 Long Term Care	93.042	7,288	-
2003-A	Special Programs for the Aging – Title III, Part D – Disease Prevention	93.043	11,134	-
2004-A	Special Programs for the Aging – Title III, Part D – Disease Prevention	93.043	750	-
2003-B	Special Programs for the Aging – Title III, Part D – Disease Prevention	93.043	37,059	-
2004-B	Special Programs for the Aging – Title III, Part D – Disease Prevention	93.043	2,374	-
2001-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services	93.044	365	-
2002-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services	94.044	(748)	-
2002-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services	93.044	517	-
2002-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services	93.052	1,309	-
2004-A	National Family Caregiver Support	92.052	17,908	-
2004-A	Centers for Medicare and Medicaid Services (CMS)	93.779	12,348	-
2003-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Administration	93.044	117,610	-
2003-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Transportation	93.044	159,713	159,713
2003-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Regional Access	93.044	9,940	-
2003-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Support Services	93.044	147,807	20,463
2003-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Direct Services	93.044	87,858	55,578

# Alamo Area Council of Governments

## Schedule of Expenditures of Federal and State Awards – Continued

Year Ended December 31, 2003

Project Number	Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Expenditures	Pass-Through Expenditures
<u>U.S. Department of Health and Human Services: (continued)</u>				
Passed Through Texas Department on Aging: (continued)				
2003-A	Special Programs for the Aging – Title III, Part C – Nutrition Services – Congregate	93.045	\$ 217,400	\$ 217,400
2003-A	Special Programs for the Aging – Title III, Part C – Nutrition Services – Home Delivered	93.045	235,159	235,159
2003-A	Special Programs for the Aging – Title IV and Title II Discretionary Projects	93.048	26,620	-
2004-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Administration	93.044	6,292	-
2004-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Transportation	93.044	3,331	-
2004-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Support Services	93.044	39,449	-
2004-A	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Direct Services	93.044	21,011	-
2004-A	Special Programs for the Aging – Title III, Part C – Nutrition Services – Congregate	93.045	69,423	-
2004-A	Special Programs for the Aging – Title III, Part C – Nutrition Services – Congregate	93.045	85,460	-
2003-A	National Family Caregiver Support	93.052	215,135	-
2003-A	Nutrition Services Incentives Program – Congregate	93.053	50,994	50,994
2003-A	Nutrition Services Incentives Program – Home Delivered	93.053	61,807	61,807
2003-A	Centers for Medicare and Medicaid Services (CMS)	93.779	2,822	-
2003-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Administration	93.044	314,125	-
2003-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Transportation	93.044	418,089	418,089
2003-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Regional Access	93.044	10,000	-
2003-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Legal Assistance	93.044	116,884	39,220
2003-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Adult Day Care	93.044	(10)	(10)
2003-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Support Services	93.044	253,768	-
2003-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Direct Services	93.044	151,266	-
2003-B	Special Programs for the Aging – Title III, Part C – Nutrition Services – Congregate	93.045	874,618	874,618
2003-B	Special Programs for the Aging – Title III, Part C – Nutrition Services – Home Delivered	93.045	464,489	464,489
2003-B	Special Programs for the Aging – Title IV and Title II Discretionary Projects	93.048	5,324	-
2004-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Administration	93.044	67,974	-
2004-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Transportation	93.044	61,085	61,085
2004-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Support Services	93.044	99,253	11,758
2004-B	Special Programs for the Aging – Title III, Part B – Grants for Support Services – Direct Services	93.044	25,024	-
2004-B	Special Programs for the Aging – Title III, Part C – Nutrition Services – Congregate	93.045	402,250	402,250
2004-B	Special Programs for the Aging – Title III, Part C – Nutrition Services – Home Delivered	93.045	173,362	173,362

# Alamo Area Council of Governments

## Schedule of Expenditures of Federal and State Awards – Continued

Year Ended December 31, 2003

Project Number	Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Expenditures	Pass-Through Expenditures
<u>U.S. Department of Health and Human Services: (continued)</u>				
Passed Through Texas Department on Aging: (continued)				
2004-B	National Family Caregiver Support	93.052	\$ 83,482	\$ -
2003-B	National Family Caregiver Support	93.052	396,417	-
2003-B	Centers for Medicare and Medicaid Services (CMS)	93.779	2,191	-
2004-B	Centers for Medicare and Medicaid Services (CMS)	93.779	2,246	-
2003-B	Nutrition Services Incentives Program – Congregate	93.053	364,232	364,232
2003-B	Nutrition Services Incentives Program – Home Delivered	93.053	123,170	123,170
2004-B	Nutrition Services Incentives Program – USDA – Congregate	93.053	110,421	110,421
2004-B	Nutrition Services Incentives Program – USDA – Home Delivered	93.053	13,006	13,006
Total Passed Through Texas Department on Aging			6,338,605	3,856,804
Passed Through Texas Department of Housing and Community Affairs:				
817001	Weatherization Assistance for Low Income – LIHEAP Wealth	93.568	199,537	-
813001	Weatherization Assistance for Low Income – LIHEAP Wealth	93.568	234,691	-
303001	SBF	93.568	51,103	-
Total Passed Through Texas Department of Housing and Community Affairs			485,331	-
Passed Through Texas Workforce Commission:				
09050400	Child Care Development Services	93.575	171,687	-
09050400	Child Care Development Services QIA	93.575	4,284	-
N/A	Workforce Transportation	93.558	38,779	-
Total Passed Through Texas Workforce Commission			214,750	-
Total U.S. Department of Health and Human Services			7,041,187	3,856,804
<u>U.S. Department of Agriculture:</u>				
Passed Through Texas Department on Aging:				
2003-A	Nutrition Services Incentives Program – USDA – Congregate	10.570	14,250	14,250
2003-A	Nutrition Services Incentives Program – USDA – Home Delivered	10.570	14,137	14,137
2003-B	Nutrition Services Incentives Program – USDA – Congregate	10.570	80,733	80,733
2003-B	Nutrition Services Incentives Program – USDA – Home Delivered	10.570	27,888	27,888
Total Passed Through Texas Department on Aging			137,008	137,008
Total U.S. Department of Agriculture			137,008	137,008

# Alamo Area Council of Governments

## Schedule of Expenditures of Federal and State Awards – Continued

Year Ended December 31, 2003

Project Number	Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Expenditures	Pass-Through Expenditures
<u>U.S. Department of Transportation:</u>				
Passed Through Texas Department of Transportation:				
RPT-2003(15)	Section 5311 – Rural Transportation	20.509	\$ 220,479	\$ 108,783
RPT-2004(15)	Section 5311 – Rural Transportation	20.509	150,662	24,014
ICB-9901(15)	Kerrville Terminal Pass-Through	20.509	609,195	-
RPT-0101(15)19	Rural Transit Assistance Program Training Pass-Through	20.509	1,650	-
JAC-0201(15)J17	Section 5307 – Job Access and Reverse Commute	20.509	49,018	-
VCR0201(15)022	Vehicle Capital Replacement	20.500	114,736	-
0915-12-370	Rideshare	20.205	127,318	-
0915-12-263	Rideshare	20.205	103,581	-
1521-02/03	Metropolitan Planning Organization	20.205	235,170	-
1521-04/05	Metropolitan Planning Organization	20.205	45,707	-
ED-0203(15)39	Elderly and Persons with Disabilities Grant Program	20.513	41,492	-
Total Passed Through Texas Department of Transportation			1,699,008	132,797
Total U.S. Department of Transportation			1,699,008	132,797
<u>U.S. Department of Commerce:</u>				
Direct Program:				
08-83-03817	Economic Development	11.305	35,326	-
Total U.S. Department of Commerce			35,326	-
<u>U.S. Department of Energy:</u>				
Direct Program:				
N/A	Advancing the Alternative Fuel Vehicle Choice Events	81.086	4,000	-
Total U.S. Department of Energy			4,000	-
<u>U.S. Department of Energy:</u>				
Passed Through Texas Department of Housing and Community Affairs:				
567001	Weatherization Assistance for Low Income Persons	81.042	49,806	-
563001	Weatherization Assistance for Low Income Persons	81.042	177,671	-
Total Passed Through Texas Department of Housing and Community Affairs			227,477	-
Total U.S. Department of Energy			231,477	-
<u>U.S. Department of Housing and Urban Development:</u>				
Direct Programs:				
TX-564-VO-0001	HUD – Section 8 Vouchers	14.871	335,590	-
Total U.S. Department of Housing and Urban Development			335,590	-
Passed Through Office of Urban Community Affairs				
C71221	Community Development	14.228	12,805	-
C73221	Community Development	14.228	1,805	-
Total Passed Through Office of Urban Community Affairs			14,610	-
Total U.S. Department of Housing and Urban Development			350,200	-

# Alamo Area Council of Governments

## Schedule of Expenditures of Federal and State Awards – Continued

Year Ended December 31, 2003

Project Number	Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Expenditures	Pass-Through Expenditures
<u>U.S. Department of Justice:</u>				
Passed through Office of the Governor – Criminal Justice Division:				
WF-03-V30-16537-01	Sexual Assault Training for Law Enforcement	16.588	\$ 10,708	\$ -
JB-02-J20-15644-03	Juvenile Accountability Block Grant	16.523	54,665	-
JB-02-J20-15644-04	Juvenile Accountability Block Grant	17.523	5,707	-
JA-99-J20-14852-01	Regional Purchase of Juvenile Justice Alternatives	16.540	<u>3,497</u>	<u>-</u>
Total Passed Through Office of the Governor – Criminal Justice Division			<u>74,577</u>	<u>-</u>
Passed Through Rape Crisis Center:				
WF-99-V04-13497-03	Law Enforcement Training – Rape Crisis Center	16.588	<u>23,364</u>	<u>-</u>
Total Passed Through Rape Crisis Center			<u>23,364</u>	<u>-</u>
Total U.S. Department of Justice			<u>97,941</u>	<u>-</u>
<u>U.S. Environmental Protection Agency:</u>				
Passed Through Texas Natural Resource Conservation Commission:				
XA-98693901-0	EPA-Growth Choices in an Urban Growth Corridor of San Antonio	66.034	<u>18,038</u>	<u>-</u>
Total Passed Through Texas Natural Resource Conservation Commission			<u>18,038</u>	<u>-</u>
Total U.S. Environmental Protection Agency			<u>18,038</u>	<u>-</u>
<u>Federal Emergency Management Agency:</u>				
Passed Through Texas Department of Public Safety:				
P40500136(18) PDM02-002	Emergency Planning Grant	83.562	207,842	-
	Pre-Disaster Mitigation	83.557	<u>112,118</u>	<u>-</u>
Total Federal Emergency Management Agency			<u>319,960</u>	<u>-</u>
Total Federal Awards – Alamo Area Council of Governments			<u>9,930,145</u>	<u>4,126,609</u>
<u>Texas Natural Resource Conservation Commission:</u>				
582-2-44891	Air Quality	N/A	615,214	-
582-4-64578	Air Quality	N/A	63,135	-
582-2-44845	Solid Waste	N/A	1,217,074	1,034,853
582-4-65524	Solid Waste	N/A	<u>67,928</u>	<u>-</u>
Total Texas Natural Resource Conservation Commission			<u>1,963,351</u>	<u>1,034,853</u>
Passed Through CAPCO:				
N/A	CAPCO	N/A	<u>183</u>	<u>-</u>
Total Passed Through CAPCO			<u>183</u>	<u>-</u>
Total Texas Natural Resource Conservation Commission			<u>1,963,534</u>	<u>1,034,853</u>

# Alamo Area Council of Governments

## Schedule of Expenditures of Federal and State Awards – Continued

Year Ended December 31, 2003

Project Number	Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Expenditures	Pass-Through Expenditures
<u>General Services Commission:</u>				
CM400	Adopt a School Bus	N/A	\$ 37,542	\$ -
CM217	Clean Cities Program	N/A	74,997	-
Total General Services Commission			112,539	-
<u>Office of the Governor:</u>				
SF-00-A2-14859-02	Police Academy 2001	N/A	327	-
SF-00-A2-14859-03	Police Academy 2002	N/A	36,226	-
SF-00-A2-14859-04	Police Academy 2003	N/A	588,480	-
SF-00-197-14468-04	Regional Criminal Justice Coordination	N/A	165,336	-
SF-00-197-14468-05	Regional Criminal Justice Coordination	N/A	57,485	-
SF-01-J20-14864-04	Regional Youth Criminal Justice Education Division	N/A	56,954	-
SF-01-J20-14864-05	Regional Youth Criminal Justice Education Division	N/A	16,316	-
Total Office of the Governor			921,124	-
<u>Texas Department on Aging:</u>				
SCG-2003-18A	State General Revenue	N/A	63,359	(12,295)
SCG-2004-18B	State General Revenue	N/A	50,008	7,938
SCG-2003-18A	State General Revenue	N/A	160,357	16,207
SCG-2004-18B	State General Revenue	N/A	206,902	193,941
Total Texas Department on Aging			480,626	205,791
<u>Commission on State Emergency Communications:</u>				
N/A	Implementation 911	N/A	9,862	-
N/A	Implementation 911	N/A	116,672	-
N/A	Implementation 911	N/A	1,183,055	-
N/A	Implementation 911	N/A	193,784	-
Total Commission on State Emergency Communications			1,503,373	-
<u>Texas Department of Transportation:</u>				
RPT-2003(15)	Section 5311 – Rural Transportation	N/A	416,005	183,672
RPT-2004(15)	Section 5311 – Rural Transportation	N/A	171,574	38,032
Total Texas Department of Transportation			587,579	221,704
<u>Texas Department of Housing and Community Affairs</u>				
	Regional Development	N/A	23,432	-
Total Texas Department of Housing and Community Affairs			23,432	-
Total State Awards – Alamo Area Council of Governments			5,592,207	1,462,348
Total Federal and State Awards – Alamo Area Council of Governments			\$ 15,522,352	\$ 5,588,957

# Alamo Area Council of Governments

## Schedule of Expenditures of Federal and State Awards – Continued

Year Ended December 31, 2003

Project Number	Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Expenditures	Pass-Through Expenditures
<b>Alamo Area Development Corporation</b>				
<b>(a Component Unit) Grants</b>				
<u>U.S. Department of Health and Human Services:</u>				
Passed Through Texas Workforce Commission:				
09050Y00	Child Care Delivery Services	93.575	\$ 491	\$ -
09050Y00	Child Care Delivery Services	93.575	415,595	-
09050Y00	Child Care Delivery Services	93.575	48,629	-
09050Y00	Child Care Delivery Services – Rural Expansion	93.575	58,621	-
N/A	Child Care Delivery Services – QIA	93.575	3,126	-
N/A	Temporary Assistance for Needy Families	93.558	1,750	-
N/A	Temporary Assistance for Needy Families	93.558	1,029,227	-
N/A	Temporary Assistance for Needy Families	93.558	425,895	-
N/A	Temporary Assistance for Needy Families	93.558	16,652	-
N/A	Rider 25	93.558	(1,526)	-
N/A	Able Bodied Americans with Disabilities	10.561	150	-
N/A	Able Bodied Americans with Disabilities	10.561	252	-
N/A	Able Bodied Americans with Disabilities	10.561	5,162	-
N/A	Able Bodied Americans with Disabilities	10.561	49,805	-
N/A	Able Bodied Americans with Disabilities	10.561	26,838	-
Total Passed Through Texas Workforce Commission			2,080,667	-
Total U.S. Department of Health and Human Services			2,080,667	-
<u>U.S. Department of Agriculture:</u>				
Passed Through Texas Workforce Commission:				
N/A	Food Stamps	10.561	50,221	-
N/A	Food Stamps	10.561	7,302	-
N/A	Food Stamps	10.561	26,139	-
Total Passed Through Texas Workforce Commission			83,662	-
Total U.S. Department of Agriculture			83,662	-
<u>U.S. Department of Labor:</u>				
Passed Through Texas Workforce Commission:				
N/A	Workforce Investment Act – Administration	17.255	28,546	-
N/A	Workforce Investment Act – Adult	17.258	500	-
N/A	Workforce Investment Act – Adult	17.258	454,679	-
N/A	Workforce Investment Act – Adult	17.258	258,943	-
N/A	Workforce Investment Act - Youth Services (ISY)	17.259	(8,288)	-
N/A	Workforce Investment Act – Youth Services (ISY)	17.259	350	-
N/A	Workforce Investment Act – Youth Services (ISY)	17.259	(3,584)	-
N/A	Workforce Investment Act – Youth Services (ISY)	17.259	426,259	-
N/A	Workforce Investment Act – Youth Services (ISY)	17.259	64,929	-
N/A	Workforce Investment Act – Youth Services (OSY)	17.259	400	-
N/A	Workforce Investment Act – Youth Services (OSY)	17.259	29	-
N/A	Workforce Investment Act – Youth Services (OSY)	17.259	49,125	-
N/A	Workforce Investment Act – Youth Services (OSY)	17.259	101,480	-
N/A	Workforce Investment Act – Youth Services (OSY)	17.259	157,578	-
N/A	Workforce Investment Act – Youth Services (OSY)	17.259	86,665	-
N/A	Workforce Investment Act – Dislocated Workers	17.260	(9,412)	-
N/A	Workforce Investment Act – Dislocated Workers	17.260	850	-
N/A	Workforce Investment Act – Dislocated Workers	17.260	459,877	-
N/A	Workforce Investment Act – Dislocated Workers	17.260	282,760	-

# Alamo Area Council of Governments

## Schedule of Expenditures of Federal and State Awards – Continued

Year Ended December 31, 2003

Project Number	Federal Grantor/Pass- Through Grantor/ Program Title	Federal CFDA Number	Expenditures	Pass-Through Expenditures
<u>U.S. Department of Labor: (continued)</u>				
Passed Through Texas Workforce Commission: (continued)				
N/A	Welfare to Work – 70% State	17.253	\$ 7,222	\$ -
N/A	Welfare to Work – 70% State	17.253	189,706	-
N/A	Welfare to Work – 70% State	17.253	402	-
N/A	Welfare to Work – 30% State	17.253	(10,232)	-
N/A	Welfare to Work – 30% State	17.253	17,780	-
N/A	Welfare to Work – 30% State	17.253	62,333	-
N/A	Welfare to Work – 30% State	17.253	2,006	-
N/A	Welfare to Work – State	17.253	115,170	-
N/A	Unemployment Assistance – Worker Profiling	17.255	3,095	-
N/A	Rural Expansion	17.255	(22,602)	-
N/A	Rural Expansion	17.255	184,342	-
N/A	Welfare to Work – Transportation		(71,893)	-
N/A	Welfare to Work – Transportation		124	-
N/A	Welfare to Work – Transportation		151	-
N/A	Performance Award	17.255	328	-
N/A	Performance Award	10.561	819	-
N/A	Performance Award	93.558	15,233	-
Total Passed Through Texas Workforce Commission			<u>2,845,670</u>	<u>-</u>
Total U.S. Department of Labor			<u>2,845,670</u>	<u>-</u>
Total Federal Awards – Alamo Area Development Corporation (a Component Unit)			<u>5,009,999</u>	<u>-</u>
<u>Texas Workforce Commission:</u>				
Passed Through Alamo Workforce Development, Inc.:				
N/A	Re-integration of Offenders	N/A	5,496	-
N/A	Re-integration of Offenders	N/A	8,719	-
Total Passed Through Texas Workforce Commission			<u>14,215</u>	<u>-</u>
Total State Awards – Alamo Area Development Corporation (a Component Unit)			<u>14,215</u>	<u>-</u>
Total Federal and State Awards – Alamo Area Development Corporation (a Component Unit)			<u>\$ 5,024,214</u>	<u>\$ -</u>
Reconciliation of Alamo Area Council of Governments Grants With Alamo Area Development Corporation (a Component Unit) to the General Purpose Financial Statements:				
Federal Awards:				
Alamo Area Council of Governments			\$ 9,930,145	\$ 4,126,609
Alamo Area Development Corporation (a Component Unit)			<u>5,009,999</u>	<u>-</u>
Total Federal Awards per General Purpose Financial Statements			<u>\$ 14,940,144</u>	<u>\$ 4,126,609</u>
State Awards:				
Alamo Area Council of Governments			\$ 5,592,207	\$ 1,462,348
Alamo Area Development Corporation (a Component Unit)			<u>14,215</u>	<u>-</u>
Total State Awards per General Purpose Financial Statements			<u>\$ 5,606,422</u>	<u>\$ 1,462,348</u>



# Alamo Area Council of Governments

## Notes to Schedule of Expenditures of Federal and State Awards

December 31, 2003

### **Note A – General**

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards programs of AACOG for the year ended December 31, 2003. The reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but 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.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, or governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

In accordance with GASB requirements, AACOG has reviewed other entities and activities for possible inclusion in the reporting entity. Based on this review, AADC has been included in the financial reporting entity, as described in Note A to the financial statements.

### **Note B – Measurement Focus and Basis of Accounting**

The federal and state grant funds were accounted for in the Special Revenue Funds, a component of the Governmental Fund types. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With the Governmental Fund type measurement focus, only current assets and current liabilities generally are 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.

The modified accrual basis of accounting is used for the Governmental Fund types. 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 fund 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 are generally considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

## **Alamo Area Council of Governments**

### **Notes to Schedule of Expenditures of Federal and State Awards – Continued**

December 31, 2003

#### **Note C – Audit of Specific Program – Commission on State Emergency Communications – 911 Program Fiscal Year 2002**

During the prior year audit, our coverage for federal programs was 59.8% of total program expenditures and 12.9% of state program expenditures. As such, we did not reach our required coverage on state programs for fiscal year 2002. In accordance with the State of Texas Single Audit Circular, we have audited the Advisory Commission on State Emergency Communications – 911 Program for fiscal year 2002, in order to obtain coverage requirement for fiscal year 2002. We noted no findings as a result of this additional audit.

# Alamo Area Council of Governments

## Schedule of Findings and Questioned Costs

December 31, 2003

<u>Summary of Auditors' Results</u>	<u>Description</u>
Type of Report on Financial Statements	Unqualified
Reportable Conditions	Finding 2003-1
Material Weaknesses Involving Reportable Conditions	None
Noncompliance Material to the Financial Statements	None
Type of Report on Compliance With Major Programs	Unqualified
Findings and Questioned Costs for Federal Awards as Defined in Section .510(a). OMB Circular A-133 and the State of Texas Single Audit Circular issued by the Office of the Governor of the State of Texas	Finding 2003-1
Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs	\$411,032
Dollar Threshold Used to Distinguish Between Type A and Type B State Programs	\$300,000
Low-Risk Auditee Statement	AACOG was classified as a low-risk auditee in the context of OMB Circular A-133 and the State of Texas Single Audit Circular issued by the Office of the Governor of the State of Texas
Major Federal Programs	Nutrition Services Incentives Program – CFDA #93.053  Formula Grants for Other Than Urbanized Areas – CFDA #20.509

# Alamo Area Council of Governments

## Schedule of Findings and Questioned Costs – Continued

December 31, 2003

<u>Summary of Auditors' Results</u>	<u>Description</u>
Major Federal Programs: (continued)	Child Care and Development Block Grant – CFDA #93.575
	Highway Planning and Construction – CFDA #20.205
	Section 8 Housing Choice Vouchers – CFDA # 14.871
	Welfare to Work Grants – CFDA #17.253
	Temporary Assistance for Needy Families – CFDA #93.558
Major State Programs	Air Quality NONA
	Solid Waste Implementation
	Regional Police Academy
	Advisory Commission on State Emergency – 911 Program (FY 2003 and 2002)

# Alamo Area Council of Governments

## Schedule of Findings and Questioned Costs – Continued

December 31, 2003

### Federal Program Findings

U.S. Department of Housing and Urban Development  
Federal CFDA – 14.871

#### Finding 2003-01

*Criteria:* We received a letter from the U.S. Department of Housing and Urban Development (“HUD”), requesting that we perform testing to confirm the accuracy of HUD’s Section 8 Management Assessment Program (“SEMAP”) certification covering the fiscal year ended December 31, 2003 and audit the Housing Assistance Payment Program in accordance with the *Single Audit Act of 1984*. Based on the procedures performed to test compliance with laws and regulations over the Section 8 Housing Choice Vouchers Program, we noted the following:

#### *Statement of Condition:*

- Rent Reasonableness – AACOG must determine that the rent to owner is reasonable at the time of initial leasing. Also, AACOG must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the Housing Assistance Payment (“HAP”) contract anniversary if there is a 5% decrease in the published fair market rent in effect 60 days before the HAP contract anniversary. AACOG must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR Sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507). No documentation was found in any of the 23 tenant files tested, indicating the determination of rent reasonableness.
- Utility Allowance – AACOG must maintain an up-to-date utility allowance schedule. AACOG must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10% or more for a utility category or fuel type since the last time the utility allowance schedule was revised (24 CFR Section 982.517). There was no documentation available to determine whether there was an increase of 10% or more in utility rates during the year.
- Housing Quality Standards (“HQS”) Inspections – AACOG must inspect the unit leased to a family at least annually to determine if the unit meets HQS Inspections and AACOG must conduct quality control re-inspections. AACOG must prepare a unit inspection report (24 CFR Sections 982.158(d) and 982.405(b)). Out of the 23 files sampled, 11 did not contain the required documentation of HQS Inspections and/or quality control re-inspections.

## Alamo Area Council of Governments

### Schedule of Findings and Questioned Costs – Continued

December 31, 2003

- As a condition of admission or continued occupancy, HUD requires the tenant and other family members to provide necessary information, documentation, and releases for the Public Housing Assistance to verify income eligibility (24 CFR Sections 5.230, 5.609, and 982.516). Out of the 23 files tested, 23 did not contain the privacy notices, and 13 did not have a signed general release form.
- For both family income examinations and reexaminations, AACOG needs to obtain and document in the family file third-party verification of: (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent (24 CFR Section 982.516). Out of the 23 items tested, 23 did not contain a signed release form for third-party verification. Thus, third party verification was not performed.

*Effect:* Documentation not available.

*Cause:* AACOG's program manager left employment during the year and thus the new program manager assigned to this program was still in the process of learning the program requirements.

*Recommendation:* Based on our audit of this program, we concur with HUD's SEMAP on-site assessment conducted during November 2003. On April 1, 2004, we noted AACOG submitted a corrective action plan ("CAP") to address these concerns, as well as other recommendations made by HUD in its SEMAP assessment. We recommend AACOG follow through with the CAP submitted to HUD.

# Alamo Area Council of Governments

## Corrective Action Plan

Year Ended December 31, 2003

U.S. Department of Housing and Urban Development  
Federal CFDA – 14.871

### *Management Corrective Action:*

AACOG has implemented a CAP in response to the 2002 SEMAP on-site assessment review of November 2003 as well as the finding identified by the external auditing firm Padgett, Stratemann & Co., L.L.P. The following is the response as submitted to the Texas Department of Housing and Urban Development on April 1, 2004:

The CAP addresses all 9 HUD Indicators noted in the review as needing improvement and corrective action. Specific goals or objectives to be achieved, actions to contain the impact until improvement is achieved, resources and methodologies for achieving the objectives, corrective measures, completion dates (projected and actual), and an evaluation process are listed for each Indicator.

The CAP does not address five Indicators dealing with Expanding Housing Opportunities (this is not applicable to AACOG), Payment Standards (AACOG standards were found to be within the acceptable range), Pre-Contract Inspections and Annual HQS Inspections (these two Indicators were suspended per HUD pending HUD modifications to the MTCS system), and Family Self-Sufficiency Enrollment and Escrow Accounts (please refer to the attached email requesting and pending an exception to this rule for AACOG).

As you know, HUD reduced our budget for this current program year. Staff and program support were impacted. We service a large geographic area (several counties) and we potentially face unique challenges or obstacles. In spite of this, AACOG is strongly committed to strengthening the Section 8 Program. Every feasible action will be taken to execute our CAP and achieve our goals.

Since our last meeting, initiated by AACOG and held on February 11 with Mr. David Pohler, Mr. Greg Kraus, Ms. Darlene Hodge, and Mr. Byron Gulley, several of the Indicators have either been fully addressed or are being addressed. Corrective measures have already been executed, and objectives or goals achieved for Indicators dealing with the Waiting List, Rent Reasonableness, Utility Allowance Schedule, Annual Re-examinations, Correct Rent Calculation, and Lease Up.

# Alamo Area Council of Governments

## Corrective Action Plan – Continued

December 31, 2003

In addition, another significant action has also taken place, which we would like to emphasize, since the February meeting. Anna Kehde has been recruited to work full-time with AACOG, most specifically on the Section 8 Program. (Anna had been working with us as an Administrative Intern since last October.) Her title is Section 8 and Housing Specialist and she is the primary staff person assigned to the Section 8 Program responsible for ensuring the corrective measures are executed. Ruben Villa, Housing Case Management Specialist, will be available to provide assistance if necessary. Rose Jackson, Housing Manager, is overall in charge for the program and will continue to provide the necessary direction and supervision.

We are pleased to welcome Mr. Greg Kraus as our new Public Housing Revitalization Specialist. He and Mr. David Pohler have already been of tremendous assistance to us through various means of communication. Our evaluation plan for the CAP is based on this fundamental principle of communication – external (HUD, tenants, landlords) and internal. Besides weekly staff meetings, monthly progress reports, an internal Quality Assurance annual review (currently underway) coupled with the current audit of the program by Padgett, Stratemann & Co., L.L.P., and scheduled workflow analyses - our working partnership with Mr. Kraus, Mr. Pohler, and HUD remains a critically important key to our achieving the objectives found in the CAP.

We want you to know that we believe in the value of the program, that we are committed to the people we help find housing assistance for, and that we continue to welcome the opportunity to work with HUD. We see the challenge before us as an opportunity – an opportunity to succeed in helping people in need.

Excerpts from the corrective action plan include the following:

Update waiting list:

- Update the Administrative Plan to clearly identify AACOG's tenant selection policy.
- Include quality control procedures in the Administrative Plan.

Staff will monitor changes in rent to ensure they are comparable to current rents:

- Distribute surveys to landlords and enter results into database.
- Review listings of rental amounts in newspapers.
- Compile information to identify rent reasonableness.



# Alamo Area Council of Governments

## Corrective Action Plan – Continued

December 31, 2003

- Update tenant files with rent reasonableness form.
- Begin using data compiled on rent reasonableness as changes in rent occur with new tenants as well as with recertification of tenants.
- Update Administrative Plan to clearly explain the procedures to be utilized for determining rent reasonableness.
- Staff training.
- Incorporate quality control procedures for future SEMAP certifications in the Administrative Plan.

A utility allowance schedule using an estimated base will be used until additional tenant consumption information is gathered:

- A release of information form to all tenants will be sent in order to acquire consumption reports from their respective utility providers.
- Receive consumption reports and send necessary requests to utility companies.
- Obtain necessary rate and tariff information from utility companies in the service area.
- Compile information from utility company and tenants.
- Document necessary procedures and policies for completing the Utility Allowance Schedule on an annual basis.
- Apply new Utility Allowance Schedule to all new and renewing tenants.

Procedures are already in place to include the tracking of failed HQS inspections by documentation (of these cases) and follow-ups with landlords and tenants in the required time frame. Additionally, a schedule of annual re-inspections has been implemented and is already being adhered to.

In addition to the above information, other corrective action information and attachments were submitted to HUD on April 1, 2004 in the CAP.

**Alamo Area Council of Governments**

Summary of Schedule of Prior Audit Findings

Year Ended December 31, 2003

None

(This page intentionally left blank.)