

**ALAMO AREA
COUNCIL OF GOVERNMENTS**

SAN ANTONIO, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2006**

ALAMO AREA COUNCIL OF GOVERNMENTS

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Alamo Area Council of Governments ("Council") as of and for the year ended December 31, 2006, which collectively comprise the Council's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Council, as of December 31, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 24, 2007, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The combining nonmajor fund financial statements and supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments and Nonprofit Organizations*," and the State of Texas Uniform Grant Management Standards, and also is not a required part of the basic financial statements of the Council. The combining nonmajor fund financial statements, supplementary schedules and the Schedule of Expenditures of Federal and State Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pattillo, Brown & Hill, LLP

April 24, 2007

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Alamo Area Council of Governments' (AACOG) discussion and analysis offers readers of the Council's financial statements a narrative overview and analysis of the Council's financial activities for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

- ◆ The assets of AACOG exceeded its liabilities at the close of the most recent fiscal year by \$4,200,918 (*net assets*). Of this amount, \$904,449 (*Unrestricted net assets*) is unrestricted. This reflects an increase of \$1,965,694.
- ◆ As of the close of the current fiscal year, AACOG's governmental funds financial statements reported combined ending fund balances of \$1,287,927. The unreserved and undesignated amount in the General Fund that is available for operations is \$899,073. This includes an increase during FY2005 of \$248,227.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to AACOG's basic financial statements. The Council's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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, fluctuations 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 the Council'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).

Fund Financial Statements – A *fund* is a grouping of related accounts that are 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 the Council 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 expendable resources*, as well as on *balances of expendable resources* available at the end of the 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 the Council's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

AACOG maintains 22 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for each major fund: the General Fund, the Bexar Area Agency on Aging Fund, the Alamo Area Agency on Aging Fund, the Office of the Governor Criminal Justice Division Fund, and the Bexar Mental Retardation Authority Fund. The basic governmental fund financial statements can be found on pages 11 through 15 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements in 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 \$4,200,918 at December 31, 2006. The following table reflects the condensed Statement of Net Assets compared to prior year.

Alamo Area Council of Government's Statement of Net Assets

	Total	
	2006	2005
Assets:		
Current and other assets	\$ 8,578,185	\$ 5,488,162
Capital assets	3,296,469	1,433,082
Total assets	<u>11,874,654</u>	<u>6,921,244</u>
Liabilities:		
Current liabilities	7,290,258	4,448,462
Noncurrent liabilities	383,478	237,558
Total liabilities	<u>7,673,736</u>	<u>4,686,020</u>
Net assets:		
Invested in capital assets	3,296,469	1,433,082
Unrestricted	904,449	802,142
Total net assets	<u>\$ 4,200,918</u>	<u>\$ 2,235,224</u>

The balance of *unrestricted net assets* (\$904,449) may be used to meet the Council's ongoing obligations.

Analysis of the Council's Operations – The following table provides a summary of the Council's operations for the year ended December 31, 2006, as compared to the year ended December 31, 2005. The Council's net assets increased by \$1,965,694.

The majority of the increase to the Council's net assets is attributed to revenues earned on capital expenditures by various expenditure-driven grant programs and recognition of miscellaneous revenues.

The major capital additions are listed below by program including a brief overview of the purchase:

The Homeland Security program purchased a backup generator for regional equipment, regional resource tracking software, Alamo Regional Resource Coordination Center equipment and eight prime-mover vehicles that have been placed on loan to area jurisdictions.

The Rural Public Transportation program purchased four new vehicles to enhance the Alamo Regional Transportation (ART) fleet. The program also purchased new computers for the dispatching and office staff.

The 911 program purchased Public Safety Answering Point (PSAP) equipment for the Bandera and Frio County offices. These funds were due to a decrease in wireless expenditures plus state available contingency funds.

The Criminal Justice Police Academy program purchased and installed two distance-learning systems. The first system was installed at the Alamo Area Law Enforcement Academy Classroom I. The second system has been installed at the Kerr County Sheriff's training room.

Alamo Area Council of Government's Changes in Net Assets

	Governmental Activities	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 2,179,492	\$ 553,570
Operating grants and contributions	28,005,316	23,748,061
General revenues:		
Investment earnings	8,653	6,271
Miscellaneous	254,575	387
Member dues	209,537	209,587
Total revenues	30,657,573	24,517,876
Expenses:		
General government	269,469	39,568
Workforce development	3,273,005	3,414,248
Aging	13,324,920	13,160,575
Emergency communications	1,110,903	774,784
Economic development	74,548	85,367
Environmental quality	1,206,379	1,967,728
Community affairs	857,901	948,556
Homeland security	614,615	321,694
Transportation	2,882,786	2,580,059
Housing	884,806	615,793
Criminal justice	1,136,803	1,042,469
Health and welfare	3,055,744	-
Total expenses	28,691,879	24,950,841
Change in net assets	1,965,694	(432,965)
Net assets, beginning	2,235,224	2,668,189
Net assets, ending	\$ 4,200,918	\$ 2,235,224

When comparing 2005 to 2006, the Council experienced an increase to both revenues and expenditures. This increase is primarily due to the addition of the Ryan White Administrative Services program beginning June 1, 2006, and the addition of the Bexar Mental Retardation Authority program September 1, 2006. These programs added 55 employees, created a new Health and Welfare function/program and assumed 22 different service providers. The total expenditures for seven months of the Ryan White program and four months of Mental Retardation equaled \$3,055,744. The projected annual budget for both programs is over twelve million dollars that will be reflected in the Council's 2007 fiscal year.

The Council's General Government (various minor programs), Aging, Emergency Communications, Homeland Security, Transportation, Housing and Criminal Justice programs experienced an increase in funding which consequently increased contractual, the purchasing of equipment and program vehicles. Decreases occurred in the Workforce, Economic Development, Environmental Quality, and the Community Affairs programs. The increases in funding and expenditures were greater than the decreases, therefore reflecting a net increase from 2005.

BUDGETARY HIGHLIGHTS

The financial plan for AACOG is drafted on a grant basis, which spans more than one fiscal year. Although the financial plan is reviewed and approved by the AACOG's Board, it is not considered a legally adopted annual budget. Accordingly, budgetary information is not presented in this report.

CAPITAL ASSET ADMINISTRATION

AACOG's investment in capital assets for its governmental activities as of December 31, 2006, amounts to \$3,296,469 (net of accumulated depreciation). This investment in capital assets includes equipment, furniture and fixtures. Major capital asset events occurring during the current fiscal year included the following:

The Homeland Security program purchased a backup generator for regional equipment, regional resource tracking software, Alamo Regional Resource Coordination Center equipment and eight prime-mover vehicles totaling \$1,824,419.

The Rural Public Transportation program purchased four new vehicles and new computers for the dispatching and office staff totaling \$236,622.

The 911 program purchased Public Safety Answering Point (PSAP) equipment for the Bandera and Frio County offices. The total cost for this purchase was \$216,000.

The Criminal Justice Police Academy program purchased and installed two distance-learning systems expending a total of \$95,116. The Academy also purchased two vehicles for \$43,197.

Other various capital purchases totaled \$28,636. The total capital purchases for the fiscal year 2006 amounted to \$2,443,990.

Alamo Area Council of Governments' Capital Assets at Year-end

	Governmental Activities	
	2006	2005
Furniture, fixtures and equipment	\$ 6,053,556	\$ 3,609,866
Less: accumulated depreciation	(2,757,087)	(2,176,484)
Total capital assets	\$ 3,296,469	\$ 1,433,382

Detailed information on capital asset activity can be found in the notes to the financial statements on page 25.

ECONOMIC FACTORS AND NEXT YEAR'S FINANCIAL PLAN

The Alamo Area Council of Governments' Board of Directors approved a projected annual budget of \$43,160,375 for the 2007 fiscal year. This budget represents an increase of 40.78% from the actual 2006 expenditures. Consequently, the Council will be reviewing its monthly financial requirements. At year-end, the Council's unreserved fund balance that is available for operation expenditures is \$899,073.

With the addition of Ryan White Administration Services and the Mental Retardation Authority program, the Council was able to reduce the indirect cost rate from 17% to 15%. The decrease in rate will allow for added services to the region.

During 2006, the Council extended its current lease for an additional 77 months effective August 1, 2006 through December 31, 2012. The landlord offered the additional space requirements for the new programs and decreased the per sq. foot base cost from \$1.29 to \$1.071 per sq. foot base cost. The per sq. foot base cost will increase to a maximum of \$1.34 by the end of the lease term, which only represents a 0.5 cent per sq. foot base cost increase over the rate effective in 2006.

REQUESTS FOR INFORMATION

This financial report is designed to provide 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 addressed to the Controller's Office, Alamo Area Council of Governments, 8700 Tesovo Drive, San Antonio, Texas 78217.

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**BASIC
FINANCIAL STATEMENTS**

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ALAMO AREA COUNCIL OF GOVERNMENTS

STATEMENT OF NET ASSETS

DECEMBER 31, 2006

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental</u>	<u>Alamo Area</u>
	<u>Activities</u>	<u>Development</u>
		<u>Corporation</u>
ASSETS		
Cash and investments	\$ 3,955,327	\$ 12,881
Receivables:		
Grantors	4,008,610	1,383,088
Other	598,872	-
Deposits	10,000	-
Prepaid items	5,376	-
Capital assets	<u>3,296,469</u>	<u>-</u>
Total assets	<u>11,874,654</u>	<u>1,395,969</u>
LIABILITIES		
Accounts payable	2,505,812	1,385,229
Accrued liabilities	70,916	-
Unearned revenue	4,163,210	9,990
Other liabilities	34,394	-
Over recovered indirect costs and employee benefits	277,774	-
Over recovered central service costs	238,152	-
Noncurrent liabilities:		
Due within one year	191,739	-
Due in more than one year	<u>191,739</u>	<u>-</u>
Total liabilities	<u>7,673,736</u>	<u>1,395,219</u>
NET ASSETS		
Invested in capital assets	3,296,469	-
Unrestricted	<u>904,449</u>	<u>747</u>
Total net assets	<u>\$ 4,200,918</u>	<u>\$ 747</u>

The notes to the financial statements are an integral part of this statement.

ALAMO AREA COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Expenses	Indirect Cost Allocation	Expenses After Allocation of Indirect Costs	Program Revenues	
				Charges for Services	Operating Grants and Contributions
Primary Government:					
Governmental activities:					
General government	\$ 268,099	\$ 1,370	\$ 269,469	\$ -	\$ 52,142
Workforce development	3,117,481	155,524	3,273,005	-	3,269,108
Aging	12,881,305	443,615	13,324,920	1,817,494	11,326,183
Emergency communications	1,079,545	31,358	1,110,903	-	1,238,797
Economic development	63,330	11,218	74,548	-	57,375
Environmental quality	1,066,594	139,785	1,206,379	-	1,427,454
Community affairs	801,604	56,297	857,901	-	1,506,521
Homeland security	572,376	42,239	614,615	-	2,296,135
Transportation	2,696,895	185,891	2,882,786	41,425	2,522,464
Housing	874,280	10,526	884,806	-	330,754
Criminal justice	986,244	150,559	1,136,803	320,573	922,639
Health and welfare	2,884,537	171,207	3,055,744	-	3,055,744
Indirect costs	1,399,589	(1,399,589)	-	-	-
Total governmental activities	<u>28,691,879</u>	<u>-</u>	<u>28,691,879</u>	<u>2,179,492</u>	<u>28,005,316</u>
Total primary government	<u>\$ 28,691,879</u>	<u>\$ -</u>	<u>\$ 28,691,879</u>	<u>\$ 2,179,492</u>	<u>\$ 28,005,316</u>
Component Unit:					
Alamo Area Development Corporation	<u>\$ 7,339,038</u>	<u>\$ -</u>	<u>\$ 7,339,038</u>	<u>\$ -</u>	<u>\$ 7,339,038</u>
Total component unit	<u>\$ 7,339,038</u>	<u>\$ -</u>	<u>\$ 7,339,038</u>	<u>\$ -</u>	<u>\$ 7,339,038</u>

General revenues:
 Investment earnings
 Member dues
 Miscellaneous
 Total general revenues
 Change in net assets
 Net assets, beginning
 Net assets, ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities	Component Unit Alamo Area Development Corporation
\$ (217,327)	\$ -
(3,897)	-
(181,243)	-
127,894	-
(17,173)	-
221,075	-
648,620	-
1,681,520	-
(318,897)	-
(554,052)	-
106,409	-
-	-
-	-
<u>1,492,929</u>	<u>-</u>
<u>1,492,929</u>	<u>-</u>
-	-
-	-
8,653	72
209,537	-
254,575	-
<u>472,765</u>	<u>72</u>
1,965,694	72
<u>2,235,224</u>	<u>675</u>
<u>\$ 4,200,918</u>	<u>\$ 747</u>

ALAMO AREA COUNCIL OF GOVERNMENTS

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2006

	<u>General</u>	<u>Bexar Area Agency on Aging</u>	<u>Alamo Area Agency on Aging</u>
ASSETS			
Cash and investments	\$ 772,704	\$ -	\$ -
Accounts receivable:			
Grantors	-	940,527	333,978
Other	593,309	-	-
Due from other funds	1,887,760	50,498	21,089
Deposits	10,000	-	-
Prepaid items	<u>5,376</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 3,269,149</u>	 <u>\$ 991,025</u>	 <u>\$ 355,067</u>
LIABILITIES			
Liabilities:			
Accounts payable	273,279	781,501	141,880
Accrued payroll	70,916	-	-
Due to other funds	943,702	197,189	200,124
Over recovered indirect costs and employee benefits	277,774	-	-
Over recovered central service costs	238,152	-	-
Other liabilities	34,394	-	-
Deferred revenue	<u>143,005</u>	<u>12,335</u>	<u>13,063</u>
Total liabilities	<u>1,981,222</u>	<u>991,025</u>	<u>355,067</u>
FUND BALANCES			
Reserved for:			
Prepaid items	5,376	-	-
Unreserved, reported in:			
General fund			
Designated for compensated absences	383,478	-	-
Undesignated	<u>899,073</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,287,927</u>	<u>-</u>	<u>-</u>
 Total liabilities and fund balances	 <u>\$ 3,269,149</u>	 <u>\$ 991,025</u>	 <u>\$ 355,067</u>

The notes to the financial statements are an integral part of this statement.

Office of the Governor Criminal Justice Division	Bexar Mental Retardation Authority	Other Governmental Funds	Total Governmental Funds
\$ 123,591	\$ 2,252,888	\$ 806,144	\$ 3,955,327
266,260	-	2,467,845	4,008,610
5,563	-	-	598,872
145,022	-	718,960	2,823,329
-	-	-	10,000
-	-	-	5,376
<u>\$ 540,436</u>	<u>\$ 2,252,888</u>	<u>\$ 3,992,949</u>	<u>\$ 11,401,514</u>
17,872	122,261	1,160,886	2,497,679
-	-	-	70,916
249,553	385,150	855,744	2,831,462
-	-	-	277,774
-	-	-	238,152
-	-	-	34,394
273,011	1,745,477	1,976,319	4,163,210
<u>540,436</u>	<u>2,252,888</u>	<u>3,992,949</u>	<u>10,113,587</u>
-	-	-	5,376
-	-	-	383,478
-	-	-	899,073
-	-	-	1,287,927
<u>\$ 540,436</u>	<u>\$ 2,252,888</u>	<u>\$ 3,992,949</u>	<u>\$ 11,401,514</u>

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ALAMO AREA COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

Total fund balance - governmental funds (page 12)	\$ 1,287,927
Amounts reported for governmental activities in the Statement of Net Assets (page 8) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,296,469
Long-term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.	<u>(383,478)</u>
Net assets of governmental activities in the statement of net assets	<u>\$ 4,200,918</u>

The notes to the financial statements are an integral part of this statement.

ALAMO AREA COUNCIL OF GOVERNMENTS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Bexar Area Agency on Aging</u>	<u>Alamo Area Agency on Aging</u>
REVENUES			
Federal	\$ -	\$ 4,861,639	\$ 1,941,262
State	-	343,677	184,868
Local	52,142	60,353	342
Delegate agencies:			
Cash match	-	2,936,381	763,365
In-kind	-	742,159	787,063
Program income	-	-	-
Program income	-	319,343	201,462
Membership dues	209,537	-	-
Investment income	8,653	-	-
Miscellaneous	254,575	-	-
Total revenues	<u>524,907</u>	<u>9,263,552</u>	<u>3,878,362</u>
EXPENDITURES			
General government	81,055	-	-
Workforce development	-	-	-
Aging	-	9,377,134	3,932,138
Emergency communications	-	-	-
Economic development	-	-	-
Environmental quality	-	-	-
Community affairs	-	-	-
Homeland security	-	-	-
Transportation	-	-	-
Housing	-	-	-
Criminal justice	-	-	-
Health and welfare	-	-	-
Total expenditures	<u>81,055</u>	<u>9,377,134</u>	<u>3,932,138</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>443,852</u>	<u>(113,582)</u>	<u>(53,776)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	113,582	53,776
Transfers out	<u>(195,625)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(195,625)</u>	<u>113,582</u>	<u>53,776</u>
NET CHANGE IN FUND BALANCES	248,227	-	-
FUND BALANCES, BEGINNING	<u>1,039,700</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,287,927</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Office of the Governor Criminal Justice Division	Bexar Mental Retardation Authority	Other Governmental Funds	Total Governmental
\$ 2,362,780	\$ -	\$ 7,321,837	\$ 16,487,518
834,240	1,429,488	3,635,201	6,427,474
154	-	967,290	1,080,281
-	-	55,613	3,755,359
30,458	-	-	1,559,680
-	-	5,193	5,193
307,439	-	41,059	869,303
-	-	-	209,537
-	-	-	8,653
-	-	-	254,575
<u>3,535,071</u>	<u>1,429,488</u>	<u>12,026,193</u>	<u>30,657,573</u>
-	-	9,218	90,273
-	-	3,269,108	3,269,108
-	-	127	13,309,399
-	-	1,240,432	1,240,432
-	-	74,548	74,548
-	-	1,200,257	1,200,257
-	-	857,901	857,901
2,296,137	-	-	2,296,137
-	-	2,896,686	2,896,686
-	-	879,927	879,927
1,238,934	-	-	1,238,934
-	1,429,488	1,626,256	3,055,744
<u>3,535,071</u>	<u>1,429,488</u>	<u>12,054,460</u>	<u>30,409,346</u>
-	-	(28,267)	248,227
-	-	28,267	195,625
-	-	-	(195,625)
-	-	28,267	-
-	-	-	248,227
-	-	-	1,039,700
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,287,927</u>

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ALAMO AREA COUNCIL OF GOVERNMENTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2006

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

Net change in fund balances - total governmental funds (pages 14 - 15)	\$ 248,227
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,863,387
Some expenses (e.g., compensated absences) reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(145,920)
Change in net assets of governmental activities (pages 9 - 10)	\$ <u>1,965,694</u>

The notes to the financial statements are an integral part of this statement.

ALAMO AREA COUNCIL OF GOVERNMENTS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
AS OF DECEMBER 31, 2006

	<u>Social Security Administration</u>
ASSETS	
Due from other funds	\$ <u>8,133</u>
Total assets	\$ <u>8,133</u>
LIABILITIES	
Due to others	\$ <u>8,133</u>
Total liabilities	\$ <u>8,133</u>

The notes to the financial statements are an integral part of this statement.

ALAMO AREA COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Alamo Area Council of Governments (the "Council") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies and practices used by the Council.

Reporting Entity

The Alamo Area Council of Governments is a political subdivision of the State of Texas and a voluntary association of local governments within the twelve-county region. The Council was established in 1967 to study and resolve area-wide problems through the cooperation and coordinated action of member cities, counties, school districts and special purpose districts of the region.

Membership in the Council is voluntary. Any county, city or special purpose district within the region may become a member of the independent association by passing a resolution to join the Council and paying annual dues. Each member government is entitled to have voting representation on the Board of Directors, which is the Council's governing body.

The Council's basic financial statements include the accounts of all the Council operations. The criteria for including organizations within the Council's reporting entity is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The following organization has been included within the Council's reporting entity:

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

Discretely Presented Component Unit

During 1995, AACOG formed a nonprofit organization, Alamo Area Development Corporation (“AADC”). AADC is governed by a Board of seven directors, which are also members of the governing body of AACOG. During 1998, AADC contracted with Alamo Workforce Development, Inc., subsequently renamed Alamo WorkSource (“AWS”) during 2006, 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. Complete financial statements may be obtained at the entity’s administrative office.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the 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* are generally supported by intergovernmental revenue.

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.

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.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The Council reports the following major governmental funds:

The *General Fund* is the Council's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Bexar Area Agency on Aging Fund* is used to account for federal and state grants awarded to Alamo Area Council of Governments by the Texas Department of Aging and Disability Services.

The *Alamo Area Agency on Aging Fund* is used to account for federal and state funds awarded to Alamo Area Council of Governments by the Texas Department of Aging and Disability Services.

The *Office of the Governor, Criminal Justice Division Fund* is used to account for federal and state funds awarded to Alamo Area Council Governments by the Office of the Governor, Criminal Justice Division.

The *Bexar Mental Retardation Authority Fund* is used to account for state funds awarded to AACOG by the Texas Department of Aging and Disability Services as the mental retardation authority of Bexar County.

Additionally, the Council reports the following fund type:

Agency Funds are used to report funds held in a custodial capacity for others.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

When both restricted and unrestricted resources are available for use, it is the Council's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Assets, Liabilities and Net Assets or Equity

Cash and Investments

Cash in the Council's financial statements include amounts in demand deposits. State statutes authorize the Council to invest in obligations of the United States, its agencies, certificates of deposit with banks and savings and local associations, banker's acceptances, commercial paper, mutual funds, investment pools and repurchase agreements with underlying collateral of government securities. Investments for the Council are reported at fair value.

Grants Receivable

Grants receivable represent amounts due from federal and state agencies for the various programs administered by the Council. The receivable includes amounts due on programs closed-out and those in progress as of December 31, 2006.

Other Receivables

Other receivables represent amounts due for Medicaid and other miscellaneous receivables.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." The Council had no "advances to/from other funds" at December 31, 2006.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Deferred Revenue

Deferred revenue represents amounts received from grantors in excess of expenditures for programs in progress as of December 31, 2006.

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 Council as assets with an initial, individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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 with a useful life of 3 –15 years.

Compensated Absences

Employees earn twelve (12) days of annual leave per year and may accrue up to a maximum of twenty (20) days. Employees will be paid for accrued annual leave upon termination of employment provided they have been in a fulltime position for three months or more. All annual leave pay is accrued when incurred in the government-wide statements. A liability is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fulltime employees are eligible for a maximum of ten (10) personal leave days per year. Eligible employees may be compensated for accrued personal leave days upon termination of employment as outlined in the personnel policies. Personal leave is charged to expenditures as taken, therefore, a liability is not reported for unused personal leave.

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.

(continued)

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

Assets, Liabilities and Net Assets or Equity (Continued)

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 of Aging and Disability Services, which is AACOG's designated 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 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.

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 \$277,774 were over-recovered as of December 31, 2006.

2. **RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$1,863,387 difference are as follows:

Capital outlay	\$ 2,443,990
Depreciation expense	(580,603)
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>1,863,387</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Council's financial plan is controlled at the fund and grant level with management authorized to make transfers of budgeted amounts between object class levels within a fund or grant, within restrictions imposed by grantor agencies. The Board approves the financial plan for revenue and expenditures in all funds. The financial plan for the Special Revenue Funds is made on a project (grant) basis, spanning more than one year. Appropriations for all projects in the Special Revenue Funds lapse at the end of a contract period which may not coincide with the fiscal year-end of the Council. Although the financial plans are reviewed and approved by the Council's Board, they are not considered legally adopted annual budgets or appropriations. Accordingly, comparative budget and actual results are not presented in this report.

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

As of September 30, 2006, the primary government had the following investment:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool	\$ 3,286,643	28

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Council to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the Council to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the Council to have independent auditors perform test procedures related to investment practices as provided by the Act. The Council is in substantial compliance with the requirements of the Act and with local policies.

The Council's investment pool is 2a7-like pool. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments (Continued)

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government Securities or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of December 31, 2006, \$614,073 of the Council's \$763,714 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$149,641, was covered by FDIC insurance.

Capital Assets

Capital asset activity for the year ended December 31, 2006, 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	\$ 3,609,566	\$ 2,443,990	\$ -	\$ 6,053,556
Total capital assets being depreciated	3,609,566	2,443,990	-	6,053,556
Less accumulated depreciation	(2,176,484)	(580,603)	-	(2,757,087)
	<u>\$ 1,433,082</u>	<u>\$ 1,863,387</u>	<u>\$ -</u>	<u>\$ 3,296,469</u>

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

Governmental activities:

General government	\$ 71,912
Workforce development	3,897
Aging	15,521
Emergency communications	86,471
Environmental quality	6,122
Homeland security	132,897
Transportation	222,722
Housing	4,879
Criminal justice	<u>36,182</u>
Total depreciation expense - governmental activities	<u>\$ 580,603</u>

(continued)

4. **DETAILED NOTES ON ALL FUNDS (Continued)**

Interfund Receivables and Payables

The Council pools cash in one bank account which is accounted for in the General Fund. All expenditures are paid out of this cash account, and appropriate interfund balances are recorded to reflect this activity. The composition of interfund balances as of December 31, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Bexar Area Agency on Aging	\$ 197,189
	Alamo Area Agency on Aging	200,124
	Office of the Governor - Criminal Justice Division	249,553
	Bexar Mental Retardation Authority	385,150
	Other governmental funds	855,744
Bexar Area Agency on Aging	General fund	50,498
Alamo Area Agency on Aging	General fund	21,089
Office of the Governor - Criminal Justice Division	General fund	145,022
Other governmental funds	General fund	718,960
Agency fund	General fund	<u>8,133</u>
		<u>\$ 2,831,462</u>

Long-term Debt

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Compensated absences	\$ 237,558	\$ 545,623	\$ 399,703	\$ 383,478	\$ 191,739
Governmental activity long-term liabilities	<u>\$ 237,558</u>	<u>\$ 545,623</u>	<u>\$ 399,703</u>	<u>\$ 383,478</u>	<u>\$ 191,739</u>

Typically, all governmental funds assist in liquidating compensated absences based on corresponding personnel costs.

5. OTHER INFORMATION

Risk Management

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

Contingencies

The Council contracts with local governments or other local agencies to perform the specific services set forth in certain grant agreements. The Council disburses grant funds to the agencies based on expenditure reports received from each agency.

Agencies expending \$500,000 or more in Council grant funds are required to have an independent audit each year. Copies of such audits are required to be submitted to the Council. If such audits disclose expenditures not in accordance with terms of the grants, the grantor agency could disallow the costs and require reimbursements of the disallowed costs either from the Council or the subcontractor. The Council generally has the right of recovery from the subcontracted agencies.

Retirement Plan

Texas County and District Retirement System (TCDRS)

Plan Description

Alamo Area Council of Governments provides pension, disability, and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement system (TCDRS). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 559 nontraditional defined benefit pension plans. TCERS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCERS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the government body of the Council, within the options available in the state statutes governing TCERS (TCERS Act). Members can retire at age 60 and up with 10 years of service or prior to age 60 with 80 years of total age plus service. Members are vested after 10 years of service, but must leave their accumulated deposits 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.

(continued)

5. OTHER INFORMATION (Continued)

Retirement Plan (Continued)

Texas County and District Retirement System (TCDRS)

Plan Description (Continued)

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 Council 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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The Council has elected the annually determined contribution rate (variable-rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the Council based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the Council is actuarially determined annually. The Council contributed using the actuarially determined rate of 5.19% for the months of the accounting year in 2005, and 8.36% for the months of the accounting year in 2006.

The deposit rate payable by the employee members of the plan for calendar year 2006 is the rate of 6% as adopted by the governing body of the Council. The employee deposit rate and the employer contribution rate may be changed by the Board of Directors of the Council within the options available in the TCDRS Act.

Annual Pension Cost

For the Council's accounting year ended September 30, 2006, the annual pension cost for the TCDRS plan for its employees was \$560,476 and the actual contributions were \$560,476.

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 valuations as of December 31, 2003 and December 31, 2004, the basis for determining the contribution rates for calendar years 2005 and 2006. The December 31, 2005, actuarial valuation is the most recent valuation.

(continued)

5. OTHER INFORMATION (Continued)

Pension Plans – Primary Government (Continued)

Texas County and District Retirement System (TCDRS) (Continued)

Annual Pension Cost (Continued)

Actuarial Valuation Date	12/31/03	12/31/04	12/31/05
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period	20	20	20
Asset valuation method	long-term appreciation with adjustment	long-term appreciation with adjustment	long-term appreciation with adjustment
Actuarial Assumptions:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases (1)	5.5%	5.5%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

(1) includes inflation at the stated rate

Trend Information

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/04	\$ 334,594	100%	\$ -
12/31/05	347,608	100%	-
12/31/06	560,476	100%	-

Schedule of Funding Progress

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)
2003	\$ 4,037,768	\$ 4,836,380	\$ 798,612	83.49%	\$ 5,488,263	14.55%
2004	4,768,261	5,533,883	765,622	86.16%	5,996,306	12.77%
2005	5,548,714	7,242,158	1,693,444	76.62%	6,223,844	27.21%

(1) The annual covered payroll is based on the employee contributions received by TCERS for the year ending with the valuation date.

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Texas Commission on Environmental Quality – This fund is used to account for federal and state grants awarded to Alamo Area Council of Governments by the Texas Commission on Environmental Quality.

Alamo Area Development Corporation – This fund is used to account for federal funds awarded to Alamo Area Council of Governments by the Alamo Area Development Corporation.

Texas Department of Transportation – This fund is used to account for federal and state grants awarded to Alamo Area Council of Governments by the Texas Department of Transportation.

Economic Development Administration – This fund is used to account for federal funds awarded to Alamo Area Council of Governments by the Economic Development Administration.

Commission on State Emergency Communications – This fund is used to account for state funds awarded to Alamo Area Council of Governments by the Commission on State Emergency Communications.

Metropolitan Planning Organization – This fund is used to account for federal grants awarded to Alamo Area Council of Governments by the Metropolitan Planning Organization.

Office of Rural and Community Affairs – This fund is used to account for federal grants awarded to Alamo Area Council of Governments by the Office of Rural and Community Affairs.

Texas Department of Housing and Community Affairs – This fund is used to account for federal grants awarded to Alamo Area Council of Governments by the Texas Department of Housing and Community Affairs.

U. S. Department of Housing and Urban Development – This fund is used to account for federal grants awarded to Alamo Area Council of Governments by the U. S. Department of Housing and Urban Development.

Texas Department of Public Safety – This fund is used to account for federal grants awarded to Alamo Area Council of Governments by the Texas Department of Public Safety.

Capital Area Council of Governments – This fund is used to account for state grants awarded to Alamo Area Council of Governments by the Capital Area Council of Governments.

State Energy Conservation Office – This fund is used to account for state grants awarded to Alamo Area Council of Governments by the State Energy Conservation Office.

Environmental Protection Agency – This fund is used to account for federal grants awarded to Alamo Area Council of Governments by the Environmental Protection Agency.

City of San Antonio – This fund is used to account for federal grants awarded to Alamo Area Council of Governments by the City of San Antonio.

Local Projects – This fund is used to account for projects funded by local donations.

Ryan White – This fund is used to account for the Ryan White grant program.

Katrina – This fund is used to account for the Katrina federal grant program awarded to AACOG by the U. S. Department of Health and Human Services.

ALAMO AREA COUNCIL OF GOVERNMENTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2006

	Special Revenue		
	Texas Commission on Environmental Quality	Alamo Area Development Corporation	Texas Department of Transportation
ASSETS			
Cash and investments	\$ 530,039	\$ -	\$ -
Accounts receivable:			
Grantors	127,449	387,236	617,849
Due from other funds	<u>108,982</u>	<u>2,465</u>	<u>271,177</u>
Total assets	<u>\$ 766,470</u>	<u>\$ 389,701</u>	<u>\$ 889,026</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	84,533	3,590	\$ 71,114
Due to other funds	137,100	384,426	31,369
Deferred revenue	<u>544,837</u>	<u>1,685</u>	<u>786,543</u>
Total liabilities	<u>766,470</u>	<u>389,701</u>	<u>889,026</u>
Fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 766,470</u>	<u>\$ 389,701</u>	<u>\$ 889,026</u>

Special Revenue

<u>Economic Development Administration</u>	<u>Commission on State Emergency Communications</u>	<u>Metropolitan Planning Organization</u>	<u>Office of Rural and Community Affairs</u>	<u>Texas Department of Housing and Community Affairs</u>	<u>U. S. Department of Housing and Urban Development</u>
\$ -	\$ 183,895	\$ -	\$ -	\$ -	\$ 92,210
4,616	518,829	80,951	7,119	32,123	64,183
<u>-</u>	<u>7,933</u>	<u>-</u>	<u>2,279</u>	<u>196,046</u>	<u>-</u>
<u>\$ 4,616</u>	<u>\$ 710,657</u>	<u>\$ 80,951</u>	<u>\$ 9,398</u>	<u>\$ 228,169</u>	<u>\$ 156,393</u>
\$ 13	\$ 246,018	\$ 19	\$ 26	\$ 201,219	\$ 474
4,589	-	79,852	6,745	-	66,176
14	464,639	1,080	2,627	26,950	89,743
<u>4,616</u>	<u>710,657</u>	<u>80,951</u>	<u>9,398</u>	<u>228,169</u>	<u>156,393</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 4,616</u>	<u>\$ 710,657</u>	<u>\$ 80,951</u>	<u>\$ 9,398</u>	<u>\$ 228,169</u>	<u>\$ 156,393</u>

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

DECEMBER 31, 2006

	Special Revenue		
	Texas Department of Public Safety	Capital Area Council of Governments	State Energy Conservation Office
ASSETS			
Cash and investments	\$ -	\$ -	\$ -
Accounts receivable:			
Grantors	-	-	2,446
Due from other funds	<u>2,261</u>	<u>288</u>	<u>2,813</u>
 Total assets	 <u>\$ 2,261</u>	 <u>\$ 288</u>	 <u>\$ 5,259</u>
 LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	1,020
Deferred revenue	<u>2,261</u>	<u>288</u>	<u>4,239</u>
Total liabilities	<u>2,261</u>	<u>288</u>	<u>5,259</u>
 Fund balance	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Total liabilities and fund balance	 <u>\$ 2,261</u>	 <u>\$ 288</u>	 <u>\$ 5,259</u>

Special Revenue

Environmental Protection Agency	City of San Antonio	Local Projects	Ryan White	Katrina	Totals
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 806,144
10,655	125,387	154,455	327,967	6,580	2,467,845
<u>2,573</u>	<u>-</u>	<u>45,765</u>	<u>76,378</u>	<u>-</u>	<u>718,960</u>
<u>\$ 13,228</u>	<u>\$ 125,387</u>	<u>\$ 200,220</u>	<u>\$ 404,345</u>	<u>\$ 6,580</u>	<u>\$ 3,992,949</u>
\$ 12,000	\$ 3,617	\$ 149,929	\$ 388,334	\$ -	\$ 1,160,886
-	121,695	181	16,011	6,580	855,744
<u>1,228</u>	<u>75</u>	<u>50,110</u>	<u>-</u>	<u>-</u>	<u>1,976,319</u>
<u>13,228</u>	<u>125,387</u>	<u>200,220</u>	<u>404,345</u>	<u>6,580</u>	<u>3,992,949</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 13,228</u>	<u>\$ 125,387</u>	<u>\$ 200,220</u>	<u>\$ 404,345</u>	<u>\$ 6,580</u>	<u>\$ 3,992,949</u>

ALAMO AREA COUNCIL OF GOVERNMENTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	Special Revenue		
	Texas Commission on Environmental Quality	Alamo Area Development Corporation	Texas Department of Transportation
REVENUES			
Federal	\$ 1,632	\$ 2,542,726	\$ 986,574
State	928,402	-	894,992
Local	13,667	-	585,285
Program income	-	-	36,232
Delegate agencies:			
Cash match	-	-	55,613
Program income	-	-	5,193
Total revenues	<u>943,701</u>	<u>2,542,726</u>	<u>2,563,889</u>
EXPENDITURES			
General government	-	-	-
Workforce development	-	2,542,726	-
Aging	-	-	-
Emergency communications	-	-	-
Economic development	-	-	-
Environmental quality	943,701	-	-
Community affairs	-	-	-
Transportation	-	-	2,563,889
Housing	-	-	-
Health and welfare	-	-	-
Total expenditures	<u>943,701</u>	<u>2,542,726</u>	<u>2,563,889</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES			
Transfers in	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	-
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue

Economic Development Administration	Commission on State Emergency Communications	Metropolitan Planning Organization	Office of Rural and Community Affairs	Texas Department of Housing and Community Affairs	U. S. Department of Housing and Urban Development
\$ 54,388	\$ -	\$ 332,797	\$ 21,204	\$ 800,680	\$ 325,813
-	1,240,432	-	-	-	-
2,987	-	-	-	23,423	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>57,375</u>	<u>1,240,432</u>	<u>332,797</u>	<u>21,204</u>	<u>824,103</u>	<u>325,813</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	1,240,432	-	-	-	-
74,548	-	-	-	-	-
-	-	-	27,074	824,103	-
-	-	332,797	-	-	-
-	-	-	-	-	325,813
-	-	-	-	-	-
<u>74,548</u>	<u>1,240,432</u>	<u>332,797</u>	<u>27,074</u>	<u>824,103</u>	<u>325,813</u>
(17,173)	-	-	(5,870)	-	-
<u>17,173</u>	<u>-</u>	<u>-</u>	<u>5,870</u>	<u>-</u>	<u>-</u>
<u>17,173</u>	<u>-</u>	<u>-</u>	<u>5,870</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

	Special Revenue		
	Texas Department of Public Safety	Capital Area Council of Governments	State Energy Conservation Office
REVENUES			
Federal	\$ -	\$ -	-
State	-	-	259,154
Local	-	-	8,993
Program income	-	-	-
Delegate agencies:			
Cash match	-	-	-
Program income	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>268,147</u>
EXPENDITURES			
General government	-	-	-
Workforce development	-	-	-
Aging	-	-	-
Emergency communications	-	-	-
Economic development	-	-	-
Environmental quality	-	-	40,950
Community affairs	-	-	-
Transportation	-	-	-
Housing	-	-	227,197
Health and welfare	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>268,147</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	-
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue

Environmental Protection Agency	City of San Antonio	Local Projects	Ryan White	Katrina	Totals
\$ 215,606	\$ 726,382	\$ -	\$ 1,307,455	\$ 6,580	\$ 7,321,837
-	-	-	312,221	-	3,635,201
-	-	332,935	-	-	967,290
-	-	4,827	-	-	41,059
-	-	-	-	-	55,613
-	-	-	-	-	5,193
<u>215,606</u>	<u>726,382</u>	<u>337,762</u>	<u>1,619,676</u>	<u>6,580</u>	<u>12,026,193</u>
-	-	9,218	-	-	9,218
-	726,382	-	-	-	3,269,108
-	-	127	-	-	127
-	-	-	-	-	1,240,432
-	-	-	-	-	74,548
215,606	-	-	-	-	1,200,257
-	-	6,724	-	-	857,901
-	-	-	-	-	2,896,686
-	-	326,917	-	-	879,927
-	-	-	1,619,676	6,580	1,626,256
<u>215,606</u>	<u>726,382</u>	<u>342,986</u>	<u>1,619,676</u>	<u>6,580</u>	<u>12,054,460</u>
-	-	(5,224)	-	-	(28,267)
-	-	5,224	-	-	28,267
-	-	5,224	-	-	28,267
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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SUPPLEMENTAL SCHEDULES

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ALAMO AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF INDIRECT COSTS

YEAR ENDED DECEMBER 31, 2006

Personnel services	\$ 970,271
Employee benefits	300,326
Audit	57,500
Other contract services	53,940
Travel	17,186
Rent administration	57,370
Rent	496,817
Supplies	77,577
Auto	73
Equipment	69,038
Insurance and bonding	8,456
Public notices	1,290
Printing and reproduction	22,897
Repairs and maintenance	58,583
Fuel/oil	2,835
Employee recruitment	5,376
Communications	72,235
Postage	44,595
Meetings other	17,094
Training in region	554
Publications	1,614
Professional dues	30,866
Equipment rental	<u>52,071</u>
Total indirect costs	2,418,564
Less: administration cost received	<u>1,076,944</u>
NET INDIRECT COSTS	1,341,620
ACTUAL INDIRECT COSTS RECOVERED	<u>(1,399,589)</u>
OVER RECOVERY OF INDIRECT COSTS PER 2005 AUDIT	<u>(82,372)</u>
ACCUMULATED COST OVER RECOVERY	<u>\$ (140,341)</u>

ALAMO AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF EMPLOYEE BENEFITS (FRINGE AND RELEASE TIME)

YEAR ENDED DECEMBER 31, 2006

Benefits:	
FICA	\$ 499,744
Group life insurance	16,150
Unemployment insurance	69,504
Workers' compensation	73,761
Health insurance	836,828
Retirement	582,929
Other	20
Release time	<u>1,050,416</u>
Total employee benefits	3,129,352
ACTUAL EMPLOYEE BENEFITS RECOVERED	(3,048,211)
OVER RECOVERY OF INDIRECT COST PER 2005 AUDIT	<u>(218,574)</u>
ACCUMULATED OVER RECOVERY	<u>\$ (137,433)</u>

SINGLE AUDIT SECTION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Alamo Area Council of Governments (the "Council") as of and for the year ended December 31, 2006, and have issued our report thereon dated April 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Items 2006-1 and 2006-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Items 2006-1 and 2006-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Council in a separate letter dated April 24, 2007.

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

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

Pattillo, Brown & Hill, LLP

April 24, 2007



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Alamo Area Council of Governments (the "Council") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal and state programs for the year ended December 31, 2006. The Council's major federal and state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

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

In our opinion, the Council 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, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying Schedule of Findings and Questioned Costs as Item 2006-3.

Internal Control Over Compliance

The management of Alamo Area Council of Governments is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program 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 UGMS.

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 reportable 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 caused by error or fraud 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 their normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, Board of Directors, management, others within the Council, 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.

Pattillo, Brown & Hill, LLP

April 24, 2007

ALAMO AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS			
<u>U. S. Department of Agriculture</u>			
Passed through Alamo Area Development Corporation:			
Able Bodied Americans with Disabilities	10.551	N/A	\$ 46,490
Food Stamps 50/50	10.561	N/A	41,660
Food Stamps 50/50	10.561	N/A	13,175
Food Stamps 100%	10.561	N/A	39,796
Food Stamps 100%	10.561	N/A	12,752
Total Alamo Area Development Corporation			<u>153,873</u>
Total U. S. Department of Agriculture			<u>153,873</u>
<u>U. S. Department of Commerce</u>			
Passed through Economic Development Administration:			
Economic Development Administration	11.302	08-83-03674	54,388
Total Economic Development Administration			<u>54,388</u>
Total U. S. Department of Commerce			<u>54,388</u>
<u>U. S. Department of Housing and Urban Development</u>			
Passed through Office of Rural and Community Affairs:			
Community and Economic Development Assistance Funds	14.228	C75221	11,297
Middle Rio Grande Regional Review Committee	14.228	INTER0009175221	9,907
Total Office of Rural and Community Affairs			<u>21,204</u>
Passed through Texas Department of State Health Services:			
Ryan White Title I	14.241	N/A	168,015
Total passed through Texas Department of State Health Services			<u>168,015</u>
Direct programs:			
Housing Choice Vouchers	14.871	N/A	51
Housing Choice Vouchers	14.871	N/A	298,466
Housing Choice Vouchers	14.871	N/A	27,296
Total direct programs			<u>325,813</u>
Total U. S. Department of Housing and Urban Development			<u>515,032</u>

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS (Continued)			
<u>U. S. Department of Justice</u>			
Passed through Alamo Area Development Corporation			
Project Rio	16.202	N/A	\$ 15,306
Project Rio	16.202	N/A	5,307
Total Alamo Area Development Corporation			<u>20,613</u>
Passed through Office of the Governor, Criminal Justice Division:			
Juvenile Accountability Block Grant	16.523	JB-02-J20-17389-01	(906)
Juvenile Accountability Block Grant	16.523	JB-02-J20-18098-01	30,301
Sexual Assault Training for Law Enforcement	16.588	WF-03-V30-16537-01	1,376
Sexual Assault Training for Law Enforcement	16.588	WF-05-V30-16537-03	36,028
Total Office of the Governor, Criminal Justice Division			<u>66,799</u>
Total U. S. Department of Justice			<u>87,412</u>
<u>U. S. Department of Labor</u>			
Passed through Alamo Area Development Corporation:			
Employment Services	17.207	N/A	21,372
Employment Services	17.207	N/A	5,291
WIA Adult Services	17.258	N/A	291,080
WIA Adult Services	17.258	N/A	108,814
WIA Youth	17.259	N/A	134,195
WIA Youth	17.259	N/A	42,463
WIA Youth	17.259	N/A	199,449
WIA Youth	17.259	N/A	87,960
Performance Award	17.259	N/A	(728)
WIA Dislocated Work	17.260	N/A	633,218
WIA Dislocated Work	17.260	N/A	195,571
Veteran's Services	17.801	N/A	2,844
Total Alamo Area Development Corporation			<u>1,721,529</u>
Total U. S. Department of Labor			<u>1,721,529</u>
<u>U. S. Department of Transportation</u>			
Passed through Metropolitan Planning Organization:			
Highway Planning and Construction	20.205	1521-06/07	332,797
Total Metropolitan Planning Organization			<u>332,797</u>

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS (Continued)			
<u>U. S. Department of Transportation (Continued)</u>			
Passed through Texas Department of Transportation:			
Commute Solutions FY 2005	20.205	0915-12-412	\$ 43,499
Commute Solutions FY 2006	20.205	0915-12-413	104,820
5315 Rural Transportation	20.500	RPT0603(15)29	162,457
Formula Grants for Other than Urbanized Areas	20.509	RPT0603(15)29	613,689
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	ED0501(15)42	<u>62,109</u>
Total Texas Department of Transportation			<u>986,574</u>
 Total U. S. Department of Transportation			 <u>1,319,371</u>
<u>Environmental Protection Agency</u>			
Direct Program:			
U. S./Mexico Border AQ Management	66.034	XA-96606801-0	<u>215,606</u>
Total Direct Program			<u>215,606</u>
Passed through Texas Commission on Environmental Quality:			
Early Action Compact	66.605	582-4-65710	<u>1,632</u>
Total Texas Commission on Environmental Quality			<u>1,632</u>
 Total Environmental Protection Agency			 <u>217,238</u>
<u>U. S. Department of Energy</u>			
Passed through Texas Department of Housing and Community Affairs:			
Weatherization Assistance for Low Income Persons	81.042	N/A	103,413
Weatherization Assistance for Low Income Persons	81.042	N/A	<u>137,942</u>
Total Texas Department of Housing and Community Affairs			<u>241,355</u>
 Total U. S. Department of Energy			 <u>241,355</u>

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS (Continued)			
<u>U. S. Department of Health and Human Services</u>			
Passed through Texas Department of Aging and Disability Services to the Bexar Area on Aging:			
Title VII-EAP FY 2006	93.041	2006-B	\$ 40,776
Title VII-EAP FY 2007	93.041	2007-B	10,682
Title VII-OAG FY 2006	93.042	2006-B	16,693
Title VII-OAG FY 2007	93.042	2007-B	5,847
Title III-D FY 2003	93.043	2006-B	97,164
Title III-D FY 2007	93.043	2007-B	7,686
Title III-B FY 2006	93.044	2006-B	909,606
Title III-B FY 2007	93.044	2007-B	174,001
Title III-C FY 2006	93.045	2006-B	1,746,496
Title III-C FY 2007	93.045	2007-B	104,491
Title III-E FY 2006	93.052	2006-B	513,310
Title III-E FY 2007	93.052	2007-B	100,299
Transportation Services FY 06 NSIP	93.053	2006-B	477,427
Transportation Services FY 07 NSIP	93.053	2007-B	434,025
CMS FY 2006	93.786	2006-B	13,950
Total Bexar Area on Aging			4,652,453
Passed through Texas Department of Aging and Disability Services to the Alamo Area on Aging:			
Title VII-EAP FY 2006	93.041	2006-A	6,509
Title VII-EAP FY 2007	93.041	2007-A	1,585
Title VII-OAG FY 2006	93.042	2006-A	24,955
Title VII-OAG FY 2007	93.042	2007-A	5,948
Title III-D FY 2006	93.043	2006-A	14,103
Title III-D FY 2007	93.043	2007-A	6,782
Title III-B FY 2006	93.044	2006-A	480,932
Title III-B FY 2007	93.044	2007-A	48,105
Title III-C FY 2006	93.045	2006-A	722,870
Title III-C FY 2007	93.045	2007-A	52,643
Title III-E FY 2006	93.052	2006-A	217,828
Title III-E FY 2007	93.052	2007-A	48,896
Transportation Services FY 06 NSIP	93.053	2006-A	93,982
Transportation Services FY 07 NSIP	93.053	2007-A	152,743
Total Alamo Area on Aging			1,877,881
Total Department of Aging and Disability Services			6,530,334

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS (Continued)			
<u>U. S. Department of Health and Human Services (Continued)</u>			
Passed through Texas Department of Aging and Disability Services:			
Special Programs for Aging Title IV & Title II	93.048	2005-B	\$ 125,711
Special Programs for Aging Title IV & Title II	93.048	2005-B	20,523
Total Texas Department of Aging and Disability Services			<u>146,234</u>
Passed through Alamo Area Development Corporation:			
TANF Choices	93.558	N/A	511,153
TANF Choices	93.558	N/A	135,558
Total Alamo Area Development Corporation			<u>646,711</u>
Passed through Texas Department of Housing and Community Affairs:			
Weatherization Assistance	93.568	813001	228,618
Weatherization Assistance	93.568	817001	329,489
SBF	93.568	N/A	1,218
Total Texas Department of Housing and Community Affairs			<u>559,325</u>
Passed through the City of San Antonio, Texas:			
Child Care Development Services	93.575	N/A	600,995
Child Care Development Services	93.575	N/A	125,387
Total City of San Antonio, Texas			<u>726,382</u>
Passed through Centers for Medicaid and Medicare Services:			
CMS - Alamo	93.779	N/A	63,381
CMS - Bexar	93.779	N/A	62,952
Total Centers for Medicaid and Medicare Services			<u>126,333</u>
Passed through Texas Department of State Health Services:			
Ryan White Title II	93.917	N/A	1,139,440
Katrina Assistance Program	93.667	N/A	6,580
Total Texas Department of State Health Services			<u>1,146,020</u>
Total U. S. Department of Health and Human Services			<u>9,881,339</u>

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS (Continued)			
<u>U. S. Department of Homeland Security</u>			
Passed through Office of the Governor, Criminal Justice Division:			
Emergency Prep Planning	97.004	2005-GE-T5-4025	\$ 457,105
Emergency Prep Planning	97.004	2004-GE-T4-0015	1,779,996
Weapons of Mass Destruction Awareness Training	97.004	5418AWR05	1,160
Urban Area Security Initiative	97.008	2004-UASI-99001	57,803
Law Enforcement Terrorism Prevention Program	97.074	2004-SHSP-99001	(83)
Total Office of the Governor, Criminal Justice Division			<u>2,295,981</u>
Total U. S. Department of Homeland Security			<u>2,295,981</u>
Total Federal Awards			<u>16,487,518</u>

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

State Grantor/Program Title	Grant Number	Expenditures
STATE AWARDS		
<u>Texas Department of Aging and Disability Services</u>		
Aging SGR	2005-A	\$ 65,778
Aging SGR	2006-A	119,090
Aging SGR	2005-B	14,793
Aging SGR	2006-B	81,487
Aging SGR	2007-B	247,397
MRA SGR	N/A	<u>1,429,488</u>
Total Texas Department of Aging and Disability Services		<u>1,958,033</u>
<u>Commission on State Emergency Communications</u>		
911	N/A	<u>1,240,432</u>
Total Commission on State Emergency Communications		<u>1,240,432</u>
<u>Office of the Governor - Criminal Justice Division</u>		
Police Academy 2004	SF-04-A10-14859-05	(40)
Police Academy 2005	SF-05-A10-14859-06	89,352
Police Academy 2006	SF-06-A10-14859-07	345,641
Police Academy 2007	SF-07-A10-14859-08	141,947
Planning	SF-06-197-14468-07	143,914
Regional Criminal Justice Coordination FY 2007	SF-06-197-14468-08	52,534
Regional Youth CJD FY 2007	ED-06-J21-14864-08	13,390
Regional Youth CJD FY 2006	ED-05-J20-14864-07	<u>47,502</u>
Total Office of the Governor - Criminal Justice Division		<u>834,240</u>
<u>Texas Commission on Environmental Quality</u>		
Air Quality	582-4-64578	536,238
Solid Waste FY 2005	582-4-65524	592
Solid Waste FY 2006	582-6-78026	<u>391,572</u>
Total Texas Commission on Environmental Quality		<u>928,402</u>
<u>State Energy Conservation Office</u>		
Adopt-A-School-Bus	CM400	19,582
Clean Cities	CM217	12,375
Devinel Karnes Program	CM602	<u>227,197</u>
Total State Energy Conservation Office		<u>259,154</u>
<u>Texas Department of Transportation</u>		
Rural Transportation	RPT0501(15)	582,845
Rural Transportation	RPT0601(15)	266,341
Rural Transportation	RPT0701(15)	45,806
Ryan White	HIV/SRVS 0000317658	<u>312,221</u>
Total Texas Department of Transportation		<u>1,207,213</u>
Total State Awards		<u>6,427,474</u>
Total Expenditures of Federal and State Awards		<u>\$ 22,914,992</u>

ALAMO AREA COUNCIL OF GOVERNMENTS

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

DECEMBER 31, 2006

1. GENERAL

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards programs of the primary government. The Council's reporting entity is defined in Note 1 of the basic financial statements. Federal and state awards received directly from federal and state agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal and State Awards.

The Schedule of Expenditures of Federal and State Awards does not include the activity of all applicable federal and state awards programs of Alamo Area Development Corporation, a discretely presented component unit of Alamo Area Council of Governments. This information is included in a separate report, which may be obtained from the Development Corporation's administrative office.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the basic financial statements.

ALAMO AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Summary of Auditors' Results

Type of report on financial statements	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Internal control over major programs:	
Material weakness(es) identified?	No
Reportable conditions identified that are not considered to be material weakness(es)?	None reported
Noncompliance which is material to the basic financial statements	None
Type of report on compliance with major programs	Unqualified
Findings and questioned costs for federal awards as defined in Section 501(a), OMB Circular A-133 and state awards as defined by the State of Texas Uniform Grant Management Standards	Yes
Dollar threshold considered between Type A and Type B federal programs	\$494,626
Dollar threshold considered between Type A and Type B state programs	\$300,000
Low risk auditee statement	The Council was classified as a low-risk auditee in the context of OMB Circular A-133 and the State of Texas Uniform Grant Management Standards.
Major federal programs	Rural Public Transportation, CFDA #20.509 Child Care, CFDA #93.575 Ryan White, CFDA #93.917 Homeland Security, CFDA #97.004
Major state programs	Mental Retardation Authority - General Revenue Police Academy Air Quality Solid Waste Ryan White

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

FOR THE YEAR ENDED DECEMBER 31, 2006

Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Auditing Standards

Item 2006-1:

Condition: A search for unrecorded accounts payable identified invoices for goods and services received before year-end that were not recorded as a liability at year-end.

Effect: Expenditures were not recorded in the proper period and liabilities were understated at year-end.

Cause: Existing controls are properly designed. The control objective was not met due to a deficiency in operation.

Recommendation: Management should increase its monitoring of the existing controls in place over the recording of expenditures to ensure they are recorded in the proper period.

Management's Response: The AACOG purchasing system will not allow staff to backdate an expense when transferring a purchase order into invoice stage. The accounting and purchasing staff will implement monitoring controls and procedure for recording year-end expenditures in the proper period.

Item 2006-2:

Condition: Generally accepted accounting principles direct that governmental funds recognize revenues in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. We identified certain revenues that the Council had deferred at year-end that should have been recognized in the current year.

Effect: Liabilities were overstated and revenues were understated at year-end.

Cause: Personnel were unaware of the specific revenue recognition principles applicable to these transactions.

Recommendation: The Council should properly design controls over revenue recognition in governmental funds so that revenues are recorded when they become both measurable and available to finance expenditures of the fiscal period.

(continued)

ALAMO AREA COUNCIL OF GOVERNMENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

FOR THE YEAR ENDED DECEMBER 31, 2006

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Auditing Standards** (Continued)

Item 2006-2: (Continued)

Management's Response: The Council utilizes an automated allocation management system, which has been customized to recognize revenue on a monthly basis on all Special Revenue Funds. However, the liabilities and revenues identified in this item are of a miscellaneous nature. Beginning January 2007, the Council will recognize all miscellaneous revenue when it becomes measurable and available for use. All miscellaneous revenue will be tracked separately.

Findings and Questioned Costs for Federal and State Awards

Item 2006-3: U. S. Department of Homeland Security, Federal CFDA #97.004

Compliance Requirement: Allowable costs

Condition: Legal expenditures in the amount of \$5,053 that are not allowable costs under OMB Circular A-87 were charged to this program.

Effect: The costs are subject to disallowance and are, therefore, considered questioned costs.

Cause: Management was unaware the costs were unallowable.

Recommendation: Management should emphasize the importance of being knowledgeable about the compliance requirements of the program. Personnel should be adequately trained on unallowable costs of the program to ensure federal funds are expended only for allowable costs.

Management's Response: Although the Council does have programs that allow legal fees, the staff will be trained to recognize allowable and unallowable legal fees that are specific to each program.

ALAMO AREA COUNCIL OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

None