

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND  
ECONOMIC DEVELOPMENT DISTRICT**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

## **INTRODUCTORY SECTION**

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AND ECONOMIC DEVELOPMENT DISTRICT  
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**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
PRINCIPAL OFFICIALS  
SEPTEMBER 30, 2012**

**Executive Committee**

President

Honorable Mark Allen, Jasper County Judge

Second Vice President

Honorable Joe English, Nacogdoches County Judge

Third Vice President

Honorable Wes Suiter, Angelina County Judge

Secretary

Honorable Dean Crockett, Sabine County Minority Rep.

Treasurer

Honorable Lynn Torres, Lufkin City Commissioner

**Administrative Staff**

Executive Director	Mr. Walter G. Diggles
Director of Administration	Ms. Cynthia Trowbridge
Controller	Ms. CaTina Boykin
Director of Area Agency on Aging	Ms. Holly Anderson
Director of Criminal Justice	Ms. Danielle Sells
Director of Regional Housing Authority	Ms. Ethel Bluit
Director of Regional Services and Asst. Exec. Director	Mr. Rusty Phillips
Director of Retired and Senior Volunteer Program	Ms. Pam Dunn
Director of Emergency Communications	Mr. Van Bush
Director of Homeland Security	Mr. John McDowell
Director of Service to At Risk Youth	Mr. Jeff Reed
Director of Disaster Recovery	Mr. David Alvis
Director of Quality Assurance	Mr. Vander Phelps

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## **FINANCIAL SECTION**



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Ted A. Lankford, CPA  
Glenda J. Hiers, CPA  
Richard A. Rudel, CPA  
Chris F. Wethington, CPA

# AL&H ALEXANDER LANKFORD & HIERS, INC.

Yvette Sidnell, CPA  
Jennifer L. Webster, CPA  
Kimber Rhodes, CPA  
Susan L. Murrell, CPA

*Certified Public Accountants, A Professional Corporation*

4000 S. Medford Dr., Lufkin, Texas 75901-5500

(936) 632-7771, FAX (936) 637-2448

E-mail: [alh@consolidated.net](mailto:alh@consolidated.net) Website: [www.alhcpa.com](http://www.alhcpa.com)

Wilbur E. Alexander, CPA  
(1940 - 2009)

## INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors of  
Deep East Texas Council of Governments  
and Economic Development District  
Jasper, Texas

We have audited the accompanying financial statements of the governmental activities and the major fund of Deep East Texas Council of Governments and Economic Development District (DETCOG) as of and for the year ended September 30, 2012, which collectively comprise DETCOG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Deep East Texas Council of Governments and Economic Development District'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 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 and the major fund of Deep East Texas Council of Governments and Economic Development District as of September 30, 2012, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2013 on our consideration of Deep East Texas Council of Governments and Economic Development District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 9 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Deep East Texas Council of Governments and Economic Development District's financial statements. The introductory section, other financial information and the schedule of expenditures of federal and state awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State of Texas Single Audit Circular* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for the portion marked unaudited, is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information, except for the portion marked unaudited, and the schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and portion of the other financial information marked unaudited have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Alexander, Lankford & Hiers, Inc.*

ALEXANDER, LANKFORD & HIERS, INC.

Certified Public Accountants

Lufkin, Texas  
April 17, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Deep East Texas Council of Governments and Economic Development District (DETCOG), we offer readers of DETCOG's financial statements this overview and analysis of the financial activities of Deep East Texas Council of Governments and Economic Development District for the fiscal year ended September 30, 2012. 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 DETCOG exceeded its liabilities at the close of the most recent fiscal year by \$1,747,718 (net assets). Unrestricted net assets may be used to meet DETCOG's ongoing obligations to citizens and creditors in accordance with DETCOG's fund designation and fiscal policies. The balance in unrestricted net assets was a deficit of \$69,645.
- DETCOG's total net assets (government-wide) increased by \$7,930. This is due primarily to the increase in the restricted net assets for the Regional Housing Authority program of \$63,081. DETCOG's investment in capital assets, net of related debt decreased by \$20,222 during the year. Also, DETCOG's unrestricted net assets decreased by \$34,929 during the year.
- As of the close of the current fiscal year, DETCOG's governmental fund reported combined ending fund balances of \$1,612,473, an increase of \$36,865 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was a deficit of \$123,424, or (0.56) percent of total General Fund expenditures.

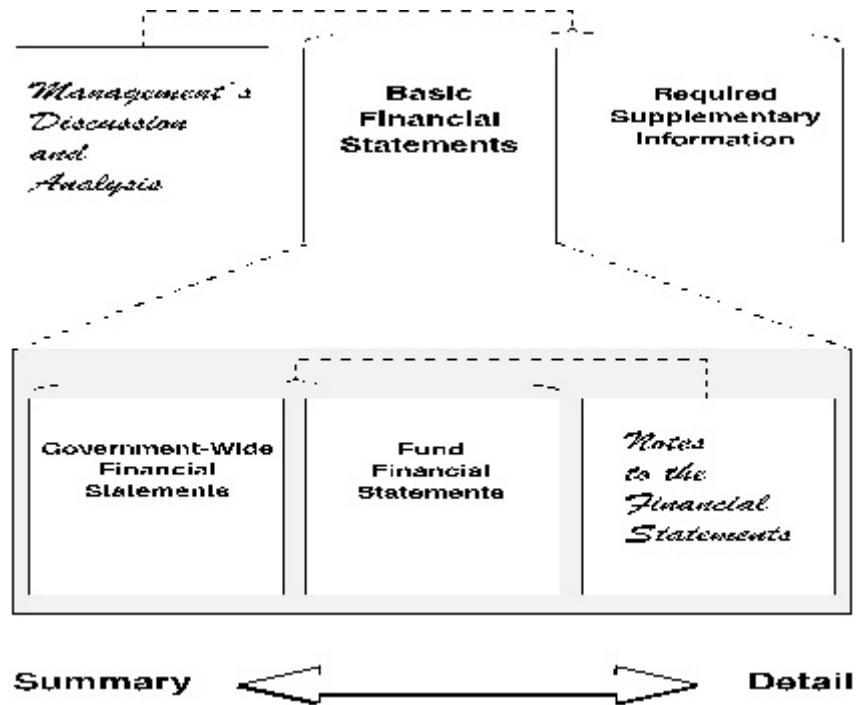
### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of DETCOG:

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Figure A-1



The first two statements are government-wide financial statements that provide both long-term and short-term information about DETCOG's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the government, reporting DETCOG's operations in more detail than the government-wide statements.

The governmental fund statements tell how general government services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of DETCOG's financial statements, including the portion of DETCOG's government they cover and the types of information they contain.

This discussion and analysis serves as an introduction to DETCOG's basic financial statements. DETCOG'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. This report also contains other financial information in addition to the basic financial statements themselves.

MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Figure A-2

**Major Features of DETCOG’s Government-Wide and Fund Financial Statements**

Type of Statements	Fund Statements	
	Government-Wide	Governmental Funds
Scope	Entire government (except fiduciary funds)	The activities of DETCOG that are not proprietary or fiduciary
Required Financial Statements	Statement of Net Assets	Balance sheet
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

**Government-Wide Financial Statements**

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

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

The *statement of activities* presents information showing how DETCOG’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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

### OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

#### Government-Wide Financial Statements - Continued

The management of DETCOG has reviewed other entities and activities for possible inclusion in the reporting entity. No other entities or activities are included within DETCOG's reporting entity.

The government-wide financial statements can be found on pages 21 - 23 of this report.

#### Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. DETCOG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of DETCOG 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 how cash resources flow into and out of those funds and balances remaining at the year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, that requires the recognition of revenue when earned, only so long as the funds are collected within the period or soon enough afterwards to be used to pay liabilities of the current period. 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

DETCOG maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund.

DETCOG adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The fund financial statements can be found on pages 24 - 28 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED**

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 29 - 43 of this report.

**Other Financial Information**

In addition to the basic financial statements and accompanying notes, this report also presents other financial information. Other financial information can be found on pages 47 - 60 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of DETCOG, assets exceeded liabilities by \$1,747,718 at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Assets.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012 AND 2011**

	GOVERNMENTAL ACTIVITIES		TOTAL	
	2012	2011	2012	2011
Current and other assets	\$ 4,318,155	\$ 5,931,457	\$ 4,318,155	\$ 5,931,457
Capital assets	55,547	75,769	55,547	75,769
Total assets	<u>4,373,702</u>	<u>6,007,226</u>	<u>4,373,702</u>	<u>6,007,226</u>
Long-term liabilities				
Other liabilities	<u>2,625,984</u>	<u>4,267,438</u>	<u>2,625,984</u>	<u>4,267,438</u>
Total liabilities	<u>2,625,984</u>	<u>4,267,438</u>	<u>2,625,984</u>	<u>4,267,438</u>
Net assets:				
Invested in capital assets, net of related debt	55,547	75,769	55,547	75,769
Restricted	1,761,816	1,698,735	1,761,816	1,698,735
Unrestricted	<u>(69,645)</u>	<u>(34,716)</u>	<u>(69,645)</u>	<u>(34,716)</u>
Total net assets	<u>\$ 1,747,718</u>	<u>\$ 1,739,788</u>	<u>\$ 1,747,718</u>	<u>\$ 1,739,788</u>



**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - CONTINUED**

- A portion of DETCOG’s net assets (3 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. DETCOG uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.
- The largest portion of DETCOG’s net assets (101 percent) represents resources that are subject to external restrictions on how they can be used.
- Additionally, a portion of DETCOG’s net assets (-4 percent) represents unrestricted financial resources available for future operations.
- At the end of the current fiscal year, DETCOG is able to report a positive balance in two of the three categories of net assets.

**Analysis of DETCOG’s Operations**

The following table provides a summary of DETCOG’s operations for the year ended September 30, 2012. Governmental activities increased DETCOG’s net assets by \$7,930 accounting for all of the increase in net assets.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012 AND 2011**

	GOVERNMENTAL ACTIVITIES		TOTAL	
	2012	2011	2012	2011
Revenues:				
Program Revenues:				
Charges for services	\$ 360,323	\$ 813,546	\$ 360,323	\$ 813,546
Operating grants and contributions	21,470,216	24,125,531	21,470,216	24,125,531
General Revenues:				
Membership dues	55,826	52,530	55,826	52,530
Sustaining dues	8,075	11,275	8,075	11,275
Miscellaneous income	25,094	16,844	25,094	16,844
Unrestricted investment earnings	6,107	1,493	6,107	1,493
Total revenues	<u>21,925,641</u>	<u>25,021,219</u>	<u>21,925,641</u>	<u>25,021,219</u>

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED**

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
STATEMENT OF ACTIVITIES - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012 AND 2011**

	GOVERNMENTAL ACTIVITIES		TOTAL	
	2012	2011	2012	2011
Expenses:				
Administration	84,805	150,036	84,805	150,036
Disaster Recovery	3,547,515	4,380,533	3,547,515	4,380,533
Area Agency on Aging	2,864,754	2,451,271	2,864,754	2,451,271
Regional Housing Authority	11,113,960	11,484,119	11,113,960	11,484,119
Emergency Communications	1,569,406	2,251,905	1,569,406	2,251,905
Homeland Security	316,836	653,827	316,836	653,827
Criminal Justice	365,774	1,070,623	365,774	1,070,623
Social Services Program	139,409	104,852	139,409	104,852
Service to At Risk Youth	445,266	486,162	445,266	486,162
Retired and Senior Volunteer Program	177,255	162,428	177,255	162,428
Regional Services	213,878	878,873	213,878	878,873
Indirect Costs	1,078,853	1,042,948	1,078,853	1,042,948
Total expenses	<u>21,917,711</u>	<u>25,117,577</u>	<u>21,917,711</u>	<u>25,117,577</u>
Change in net assets	7,930	(96,358)	7,930	(96,358)
Net assets - beginning	<u>1,739,788</u>	<u>1,836,146</u>	<u>1,739,788</u>	<u>1,836,146</u>
Net assets - ending	<u>\$ 1,747,718</u>	<u>\$ 1,739,788</u>	<u>\$ 1,747,718</u>	<u>\$ 1,739,788</u>

**FINANCIAL ANALYSIS OF DETCOG’S FUNDS**

**Governmental Funds**

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

As DETCOG completed the year, its governmental funds, as presented in the balance sheet on page 24, reported *combined* ending fund balances of \$1,612,473, which is an increase of \$36,865 from last year’s total of \$1,575,608. One hundred and four percent or \$1,682,118 of this total is restricted due to external limitations on its use. The uses are for federal and state grants. Three percent of the total or \$53,779 is considered nonspendable because it is not in spendable form. The remaining negative seven percent or \$(123,424) is unassigned.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

### FINANCIAL ANALYSIS OF DETCOG'S FUNDS - CONTINUED

#### Governmental Funds - Continued

The General Fund is the operating fund of DETCOG. At the end of the current fiscal year, unassigned fund balance of the General Fund was a deficit of \$123,424, while total fund balance reached \$1,612,473. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents (0.56) percent of total General Fund expenditures. Refer to page 24 of this report for a more detailed presentation of governmental fund balances.

#### BUDGETARY HIGHLIGHTS

DETCOG uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. DETCOG's financial plan is controlled at the fund and project level with management authorized to make transfers of budgeted amounts between object class levels within a fund or project, within restrictions imposed by grantor agencies. The Board approves the financial plan for revenues and expenditures in all funds. The financial plan for grants is made on a project (grant) basis, spanning more than one year. Appropriations for all projects lapse at the end of a contract period which may not coincide with the fiscal year end of DETCOG.

The budget was amended two times. Differences between the original budget and the final amended budget were significant (\$1,038,929 increase in projected revenues and \$1,054,460 increase in projected expenditures) and can be briefly summarized as follows:

- Increase of \$1,038,929 in federal, state and local grants revenue was primarily due to the following changes:
  - Increase of \$61,371 in Administration is due to an increase in the Indirect Cost Pools funds.
  - Increase of \$23,000 in Disaster Recovery relates to the Disaster Recovery GLO MOD allocation program increase in funds.
  - Increase of \$542,109 in Area Agency on Aging is due to additional federal and state funding for the Aging programs.
  - Increase of \$410,618 in 9-1-1 Emergency Communications program is due to the reallocation of FY 2011 funds of \$385,618 and additional surcharges for FY 2012 of \$25,000.
  - Decrease of \$1,388 in Criminal Justice relates to a decrease in the funding for Youth Crime Prevention.
  - Increase of \$4,822 in Social Services Programs is due to a decrease in funds for the CBO Social Service for Deep East Texas program of \$1,958 and a increase in funds for the CBO Social Services for South East Texas program of \$6,780.
  - Decrease of \$1,603 in Regional Services is due to a decrease in TCEQ funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

### BUDGETARY HIGHLIGHTS - CONTINUED

- Increase in equipment costs of \$385,618 was due to the 9-1-1 Emergency Communications program reallocation of FY 2011 funds.
- Increase in participant and subcontractor costs of \$593,098 was primarily due to additional funding for the Area Agency on Aging programs of \$542,109 and additional surcharges for the 9-1-1 Emergency Communications of \$25,000.

Differences between the actual results and the final amended budget were significant (\$197,311 increase in actual revenues and \$254,703 increase in actual expenditures) and can be briefly summarized as follows:

- Increase of \$141,992 in miscellaneous income was primarily due to Regional Housing Authority increase of \$132,584.
- Increase in contract services of \$66,429 was primarily due to pass through funding of Gulf Coast Strategic Highway increase of \$77,443.
- Increase in participant and subcontractor costs of \$187,160 was primarily due to Disaster Recovery increase of \$376,909, Area Agency on Aging decrease of \$109,034, Regional Housing Authority increase of \$508,555, 9-1-1 Emergency Communications decrease of \$329,000, Homeland Security decrease of \$434,262 and Criminal Justice increase of \$181,368.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

DETCOG's investment in capital assets for its governmental activities as of September 30, 2012, amounts to \$55,547 (net of accumulated depreciation). This investment in capital assets includes land, buildings and leasehold and furniture, fixtures and equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

CAPITAL ASSETS AND DEBT ADMINISTRATION - CONTINUED

Capital Assets - Continued

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
CAPITAL ASSETS (Net of depreciation)  
SEPTEMBER 30, 2012 AND 2011

	GOVERNMENTAL ACTIVITIES		TOTAL	
	2012	2011	2012	2011
Land	\$ 14,000	\$ 14,000	\$ 14,000	\$ 14,000
Buildings and leasehold	253,718	253,718	253,718	253,718
Furniture, fixtures and equipment	209,109	209,109	209,109	209,109
Less: accumulated depreciation	(421,280)	(401,058)	(421,280)	(401,058)
Total	<u>\$ 55,547</u>	<u>\$ 75,769</u>	<u>\$ 55,547</u>	<u>\$ 75,769</u>

Additional information regarding DETCOG's capital assets can be found in the Capital Assets Note on page 40 of this report.

**Long-term Debt**

At September 30, 2012, DETCOG did not have any long-term debt outstanding.

**ECONOMIC FACTORS**

The Deep East Texas Council of Governments' mission encompasses combining the resources of local governments to provide a window of opportunity for helping citizens improve their quality of life. The level of activity within the agency began to rise during fiscal year 2012 with the start of Round 2.2 Hurricane Ike Disaster Recovery. This represents the final round of disaster recovery funding for Hurricane Ike. DETCOG will administer two separate contracts totaling 25 million dollars in contract authority.

In addition, the region's cities and counties will be implementing infrastructure projects totaling 60 million dollars for rebuilding damaged infrastructure from Hurricane Ike.

These funds will have a positive impact on the region's economic growth and development and provide new housing opportunities that could increase property tax valuations in the region.

This impact has already been reflected in the region's sales tax reports for 2012 with an increase in most of the 12 county DETCOG region.

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

### **ECONOMIC FACTORS - CONTINUED**

Political issues in Washington, DC have created a level of uncertainty with budgets throughout the state and nation. The impacts of the Sequestration and agreements between Congress and the President over the federal budget have caused anxiety with regards to impacts to agency budgets.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of Deep East Texas Council of Governments and Economic Development District's finances for all those with an interest in DETCOG's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Executive Director, Deep East Texas Council of Governments and Economic Development District, 210 Premier Drive, Jasper, Texas 75951.

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**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>TOTAL</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,099,365	\$ 2,099,365
Receivables (net of allowance for uncollectible):		
Grants	1,969,734	1,969,734
Other	195,277	195,277
Prepaid items	53,779	53,779
Capital assets (net of accumulated depreciation)	55,547	55,547
Total assets	4,373,702	4,373,702
<b>Liabilities</b>		
Accounts payable	1,160,308	1,160,308
Accrued compensated absences	194,546	194,546
Other accrued expenses	147,204	147,204
Unearned revenue	1,123,926	1,123,926
Total liabilities	2,625,984	2,625,984
<b>Net Assets</b>		
Invested in capital assets, net of related debt	55,547	55,547
Restricted for:		
Grant programs	1,761,816	1,761,816
Unrestricted	(69,645)	(69,645)
Total net assets	\$ 1,747,718	\$ 1,747,718

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



**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

FUNCTIONS/PROGRAMS	EXPENSES		EXPENSES AFTER ALLOCATION OF INDIRECT COSTS
	EXPENSES	INDIRECT COST ALLOCATION	
<b>Governmental Activities:</b>			
Administration	\$ 84,805	\$ 18,578	\$ 103,383
Disaster Recovery	3,547,515	103,940	3,651,455
Area Agency on Aging	2,864,754	122,732	2,987,486
Regional Housing Authority	11,113,960	181,400	11,295,360
Emergency Communications	1,569,406	102,739	1,672,145
Homeland Security	316,836	29,680	346,516
Criminal Justice	365,774	22,236	388,010
Social Services Program	139,409	21,828	161,237
Service to At Risk Youth	445,266	82,371	527,637
Retired and Senior Volunteer Program	177,255	23,669	200,924
Regional Services	213,878	31,130	245,008
Indirect Costs	1,078,853	(740,303)	338,550
Total governmental activities	21,917,711		21,917,711
Total	\$ 21,917,711		\$ 21,917,711

PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	TOTAL
\$ 78,288			\$ (25,095)	\$ (25,095)
11,165	\$ 3,640,290			
36,492	2,893,273		(57,721)	(57,721)
124,279	11,234,162		63,081	63,081
4,088	1,668,057			
	346,284		(232)	(232)
	385,000		(3,010)	(3,010)
37,405	123,832			
3,372	522,772		(1,493)	(1,493)
65,122	95,177		(40,625)	(40,625)
112	222,819		(22,077)	(22,077)
	338,550			
360,323	21,470,216		(87,172)	(87,172)
<u>\$ 360,323</u>	<u>\$ 21,470,216</u>		<u>(87,172)</u>	<u>(87,172)</u>

**General Revenues:**

Membership dues	55,826	55,826
Sustaining dues	8,075	8,075
Miscellaneous income	25,094	25,094
Unrestricted investment earnings	6,107	6,107
Total general revenues	<u>95,102</u>	<u>95,102</u>
Change in net assets	7,930	7,930
Net assets - beginning	<u>1,739,788</u>	<u>1,739,788</u>
Net assets - ending	<u>\$ 1,747,718</u>	<u>\$ 1,747,718</u>

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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUND  
SEPTEMBER 30, 2012**

	GENERAL	TOTALS GOVERNMENTAL FUND
<b>Assets</b>		
Cash and cash equivalents	\$ 68,280	\$ 68,280
Receivables (net of allowance for uncollectible):		
Grants	1,789,273	1,789,273
Other	111,431	111,431
Due from other funds	18,147	18,147
Prepaid items	43,288	43,288
Restricted assets:		
Cash and cash equivalents	2,031,085	2,031,085
Grants receivable - net	180,461	180,461
Other receivables - net	83,846	83,846
Due from other funds	68,753	68,753
Prepaid items	10,491	10,491
	<u>\$ 4,405,055</u>	<u>\$ 4,405,055</u>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,050,745	\$ 1,050,745
Accrued compensated absences	194,546	194,546
Other accrued expenses	68,049	68,049
Due to other funds	68,753	68,753
Liabilities payable from restricted assets:		
Accounts payable	109,563	109,563
Other accrued expenses	79,155	79,155
Due to other funds	18,147	18,147
Unearned revenue	485,653	485,653
Unearned revenue	717,971	717,971
	<u>2,792,582</u>	<u>2,792,582</u>
<b>Fund Balance</b>		
Fund balance (deficit):		
Nonspendable - prepaid items	53,779	53,779
Restricted - grant programs	1,682,118	1,682,118
Unassigned	(123,424)	(123,424)
	<u>1,612,473</u>	<u>1,612,473</u>
Total fund balance	<u>1,612,473</u>	<u>1,612,473</u>
Total liabilities and fund balance	<u>\$ 4,405,055</u>	<u>\$ 4,405,055</u>

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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

Amounts reported for governmental activities in the statement of net assets (page 21) are different because:

Total fund balance - governmental fund balance sheet (page 24)	\$ 1,612,473
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	55,547
Certain deferred revenues are not available to pay current period expenditures and therefore are deferred in the governmental funds.	<u>79,698</u>
Net assets of governmental activities (page 21)	<u><u>\$ 1,747,718</u></u>

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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	GENERAL	TOTALS GOVERNMENTAL FUND
<b>Revenues</b>		
Federal, state and local grants	\$ 21,470,216	\$ 21,470,216
Membership dues	55,826	55,826
Sustaining local dues	8,075	8,075
Investment earnings	7,261	7,261
Miscellaneous income	159,992	159,992
Grant matching funds:		
DETCOG cash matching	125,158	125,158
Subcontractor cash contributions	140,651	140,651
Subcontractor in-kind contributions	92,333	92,333
 Total revenues	 22,059,512	 22,059,512
<b>Expenditures</b>		
Administration	546,869	546,869
Disaster Recovery	3,651,455	3,651,455
Area Agency on Aging	2,987,486	2,987,486
Regional Housing Authority	11,295,360	11,295,360
Emergency Communications	1,672,145	1,672,145
Homeland Security	346,516	346,516
Criminal Justice	388,010	388,010
Social Services Program	161,237	161,237
Service to At Risk Youth	527,637	527,637
Retired and Senior Volunteer Program	200,924	200,924
Regional Services	245,008	245,008
 Total expenditures	 22,022,647	 22,022,647
 Excess (deficiency) of revenues over expenditures	 36,865	 36,865
<b>Other Financing Sources (Uses)</b>		
Operating transfers in	924,815	924,815
Operating transfers out	(924,815)	(924,815)
 Total other financing sources (uses)	 	 
 Net change in fund balance	 36,865	 36,865
 Fund balance - beginning	 1,575,608	 1,575,608
 Fund balance - ending	 \$ 1,612,473	 \$ 1,612,473

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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Amounts reported for governmental activities in the statement of activities (pages 22 - 23) are different because:

Net change in fund balance - total governmental fund (page 26)	\$ 36,865
The depreciation of capital assets used in governmental activities is not reported in the funds.	(20,222)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(8,713)</u>
Change in net assets of governmental activities (page 23)	<u><u>\$ 7,930</u></u>

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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
OF GENERAL FUND - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
<b>Revenues</b>				
Federal, state and local grants	\$ 20,429,877	\$ 21,468,806	\$ 21,470,216	\$ 1,410
Membership dues	56,930	56,930	55,826	(1,104)
Sustaining local dues	19,375	19,375	8,075	(11,300)
Investment earnings	2,400	2,400	7,261	4,861
Miscellaneous income	18,000	18,000	159,992	141,992
Grant matching funds:				
DETCOG cash matching	141,174	148,940	125,158	(23,782)
Subcontractor cash contributions	105,750	105,750	140,651	34,901
Subcontractor in-kind contributions	42,000	42,000	92,333	50,333
<b>Total revenues</b>	<b>20,815,506</b>	<b>21,862,201</b>	<b>22,059,512</b>	<b>197,311</b>
<b>Expenditures</b>				
Personnel	3,708,513	3,797,333	3,787,975	9,358
Staff travel	323,193	313,295	302,758	10,537
Contract services	145,800	127,572	194,001	(66,429)
Equipment costs	7,000	392,618	375,790	16,828
Participant and subcontractor costs	15,331,424	15,924,522	16,111,682	(187,160)
Other costs	1,056,380	1,063,664	1,125,283	(61,619)
DETCOG cash matching	141,174	148,940	125,158	23,782
<b>Total expenditures</b>	<b>20,713,484</b>	<b>21,767,944</b>	<b>22,022,647</b>	<b>(254,703)</b>
Excess (deficiency) of revenues over expenditures	102,022	94,257	36,865	(57,392)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in			924,815	(924,815)
Operating transfers out			(924,815)	924,815
<b>Total other financing sources (uses)</b>				
<b>Net change in fund balance</b>	<b>102,022</b>	<b>94,257</b>	<b>36,865</b>	<b>(57,392)</b>
Fund balance - beginning	1,575,608	1,575,608	1,575,608	
Fund balance - ending	<u>\$ 1,677,630</u>	<u>\$ 1,669,865</u>	<u>\$ 1,612,473</u>	<u>\$ (57,392)</u>

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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012**

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

The basic financial statements of Deep East Texas Council of Governments and Economic Development District (DETCOG) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) applicable 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 DETCOG.

The accounting policies of DETCOG conform to generally accepted accounting principles as applicable to governmental units.

**(A) Reporting Entity**

DETCOG is a political subdivision of the State of Texas and a voluntary non-profit association of local governments within the twelve county Deep East Texas region. It is also an Economic Development District, recognized by the Economic Development Administration, U.S. Department of Commerce. DETCOG was established in 1968 to promote economic development of the region, promote inter-governmental cooperation, study and resolve common regional problems and provide general support to local governments.

The financial reporting entity consists of the primary government and all component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. After considering the above, there are no other agencies, organizations, or activities meeting the criteria to be included in the financial reporting entity.

Basic operations of DETCOG are financed by membership dues, unrestricted investment earnings and other miscellaneous income. DETCOG receives federal, state and local grant funds to finance specific programs.

Membership in DETCOG is voluntary, and any county, city, school district or special purpose district within the Deep East Texas region may become a member of the independent association by passing a resolution to join DETCOG and paying annual dues. Each member government or combined member governments are entitled to have voting representation on the Board of Directors, which is DETCOG's governing body. Various local agencies for which grants and funding are issued by DETCOG have not been included within the financial statements because DETCOG does not have direct managerial oversight of the operations of those agencies nor does it have the responsibility for funding future deficits or operating deficiencies of those agencies.



**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**(B) 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

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

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

**(C) 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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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 of judgements, are recorded only when payment is due.

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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

DETCOG reports the following major governmental fund:

The *General Fund* is DETCOG's operating fund. It accounts for all financial resources of the general government.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are internal balances between DETCOG's restricted and unrestricted assets. Elimination of these balances would distort the assets for the various functions concerned.

**(D) Assets, Liabilities and Net Assets or Fund Balance**

**1. Deposits**

Cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash and cash equivalents in DETCOG's financial statements include amounts in demand deposits, savings and money market accounts.

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

**2. Receivables and Payables**

On the governmental fund financial statements, activity between funds that is 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 non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the restricted and unrestricted assets are reported in the government-wide financial statements as "internal balances."

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**(D) Assets, Liabilities and Net Assets or Fund Balance - Continued**

**2. Receivables and Payables - Continued**

Grants receivable represent amounts due from federal and state agencies for the various programs administered by DETCOG. The receivable includes amounts due on programs closed-out and those in progress as of September 30, 2012.

Other receivables represent amounts due from HUD fraud recovery, landlords, membership dues, local entities, employees, interest and other miscellaneous receivables.

**3. Prepaid Items**

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

**4. Restricted Assets**

Certain resources set aside from the Commission on State Emergency Communications are classified as restricted assets on the balance sheet. These funds are restricted for use in the Emergency Communications program.

Funds set aside in accordance with a grant agreement with the United States Department of Housing and Urban Development are also classified as restricted assets. These funds are restricted for use in the Regional Housing Authority program.

**5. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. 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 asset lives are not capitalized.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**(D) Assets, Liabilities and Net Assets or Fund Balance - Continued**

**5. Capital Assets - Continued**

Depreciation of certain fixed assets used by governmental funds is charged as an expenditure in calculating indirect costs. Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

ASSETS	YEARS
Building and leasehold	4 - 15
Furniture, fixtures and equipment	3 - 7

**6. Compensated Absences**

DETCOG employees are paid for absences due to vacation or sickness according to a prescribed policy. The estimated liability for compensated absences is recorded as an expenditure and liability in the General Fund. Employees earn twelve days of vacation per year during the first three years of employment. After three full years of employment, an employee earns fifteen days of vacation per year. Employees may accrue up to a maximum of thirty days based upon a calendar year. Employees will be paid for accrued vacation upon voluntary termination of employment provided they have been in a permanent full-time position for six months or more. Employees also earn sick leave to be used against future illness. Unused sick leave is cancelled upon termination of employment, therefore no sick leave liability is accrued in the financial statements.

**7. Fund Balances**

Fund balances of the governmental fund are classified as follows:

**Nonspendable Fund Balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**(D) Assets, Liabilities and Net Assets or Fund Balance - Continued**

**7. Fund Balances - Continued**

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by DETCOG's Board of Directors. Committed amounts cannot be used for any other purpose unless the Board of Directors removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for the other purposes with appropriate due process by the Board of Directors. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which DETCOG intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Directors or by an official or body to which the Board of Directors delegates the authority. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of DETCOG itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, DETCOG considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, DETCOG considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**8. Source of Funds**

Some funds from federal, state and other local sources represent fees for service reimbursements. The funds that are specifically for service reimbursements are reported as local funds.

**9. Revenues and Expenditures**

Federal, State and Local Grant Revenues - Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Other grant revenue, including state planning assistance, is susceptible to accrual.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**(D) Assets, Liabilities and Net Assets or Fund Balance - Continued**

**9. Revenues and Expenditures - Continued**

Membership Dues - All member governments are expected to pay dues to DETCOG. Dues are assessed each July for the subsequent fiscal year and are recorded as revenue on October 1 of each year.

Grant Matching Funds - DETCOG cash matching is the allocation of DETCOG funds to grant programs, some of which require cash matching under conditions of the grant contract. Subcontractor cash and in-kind contributions represent actual donations of cash, goods or services at the subcontractor locations which are applied toward the matching requirements of the grant contract. In-kind contributions are valued at fair market value and offsetting charges are recorded as expenditures to the appropriate grant program.

Grant Expenditures - Direct grant expenditures are charged to grants for which DETCOG is the program provider. Subcontractor expenditures represent grant funds subcontracted to and expended by local governments or private non-profit organizations contracting with DETCOG to provide the services.

Indirect Costs and Employee Benefits - Indirect costs and employee benefits are charged, as expended, to indirect and employee benefit cost pools. The indirect cost pool is allocated based on percentages of salaries and benefits to each grant. The employee benefit pool is allocated to grant programs as a percentage of actual direct salaries charged to each grant. The percentages used in the allocation process are approved by the Texas Department on Aging and Disability Services.

**10. Estimates**

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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**(D) Assets, Liabilities and Net Assets or Fund Balance - Continued**

**11. Risk Management**

DETCOG 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. DETCOG maintains commercial insurance coverage covering each of those risks of loss except for liability insurance and property insurance. DETCOG maintains insurance coverage covering liability and property risks of loss with Texas Municipal League Intergovernmental Risk Pool, a self-insurance pool created by its members to provide various coverages to participating members. Excess insurance is purchased to provide additional financial stability to the Pool. Texas Municipal League intends for the pool to be self-sustaining through member premiums. Catastrophic losses that exceed the Pool's self-insured retention are secured by excess insurance purchased from domestic A-rated companies. The Pool's retention is \$1,000,000 per occurrence in excess of member deductibles for property insurance, \$500,000 per occurrence for boiler and machinery coverage, \$2,000,000 per occurrence for liability insurance, and \$25,000 per vehicle, \$2,000,000 per occurrence in excess of member deductibles for automobile physical damage coverage. Management believes such coverage is sufficient to preclude any significant uninsured losses to DETCOG. Settled claims did not exceed this commercial coverage during the last three fiscal years.

**(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**(A) Budgetary Information**

DETCOG's annual budget for the General Fund is prepared based on estimated expenditures for each individual program summarized by program category. The budget is submitted to the Board of Directors. The budget and any amendments are approved by the Board of Directors. All annual appropriations lapse at fiscal year.

Budgetary control is maintained at the program level. DETCOG's management is authorized to transfer budgeted amounts within programs, subject to grant restrictions. Revisions that alter total revenues or total expenditures are approved by the Board of Directors.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED**

**(B) Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
Total expenditures exceeded appropriations.	DETCOG will properly amend the budget in the future to reflect additional revenues received and related expenditures during the fiscal year.

**2. Deficit Fund Balance or Fund Net Assets of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**(3) DETAILED NOTES ON ALL FUNDS**

**(A) Cash, Cash Equivalents and Investments**

At September 30, 2012, DETCOG's carrying amount for cash deposits was \$2,098,915 and the bank balance was \$2,354,825. DETCOG's cash deposits at September 30, 2012 and during the year ended September 30, 2012 were entirely covered by FDIC insurance, the Dodd-Frank Deposit Insurance Provision, or by pledged collateral held by the pledging financial institution's agent bank in DETCOG's name. At September 30, 2012, DETCOG's financial statements include amounts in demand deposits, savings and money market accounts.

DETCOG is required by Texas Government Code Chapter 2256, the Public Funds Investment Act ("Act"), 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.



**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(3) DETAILED NOTES ON ALL FUNDS - CONTINUED**

**(A) Cash, Cash Equivalents and Investments - Continued**

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, DETCOG adhered to the requirements of the Act. Additionally, investment practices of DETCOG were in accordance with local policies.

The Act determines the types of investments which are allowable for DETCOG. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

**(B) Interfund Receivables and Payables**

**1. Due From and To Other Funds**

Due from and to other funds at September 30, 2012, consisted of the following:

DUE FROM	DUE TO	AMOUNT	PURPOSE
Administration	Emergency Communications Administration	\$ 18,147	Short-term advance
Regional Housing Authority		<u>68,753</u>	Short-term advance
	Total	<u>\$ 86,900</u>	

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

Transfers between funds during the year ended September 30, 2012, consisted of the following:

TRANSFER IN	TRANSFER OUT	AMOUNT	PURPOSE
Regional Housing Authority	Regional Housing Authority	\$ 924,815	Close-out various HUD programs.
	Total	<u>\$ 924,815</u>	

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(3) DETAILED NOTES ON ALL FUNDS - CONTINUED**

**(C) Grants Receivable**

The following is a summary of grants receivable at September 30, 2012:

	<b>COMPLETED GRANTS RECEIVABLE</b>	<b>OPEN GRANTS RECEIVABLE</b>	<b>TOTAL</b>
Disaster Recovery		\$ 736,299	\$ 736,299
Area Agency on Aging	\$ 432,940	168,687	601,627
Regional Housing Authority	152,461		152,461
Emergency Communications		28,000	28,000
Homeland Security	31,944	132,552	164,496
Criminal Justice	29,400	35,441	64,841
Social Services Program	11,202		11,202
Service to At Risk Youth	43,134	87,958	131,092
Regional Services	6,756	72,960	79,716
	<u>707,837</u>	<u>1,261,897</u>	<u>1,969,734</u>
Less allowance for uncollectible			
	<u>\$ 707,837</u>	<u>\$ 1,261,897</u>	<u>\$ 1,969,734</u>

**(D) Other Receivables**

The following is a summary of other receivables at September 30, 2012:

HUD fraud recovery	\$ 513,775
Landlords	37,917
Dues	6,310
Local entities	104,472
Employees	1,079
Interest	10
Other	<u>3,708</u>
	667,271
Less allowance for uncollectible	<u>(471,994)</u>
	<u>\$ 195,277</u>

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(3) DETAILED NOTES ON ALL FUNDS - CONTINUED**

**(E) Capital Assets**

Capital assets activity for the year ended September 30, 2012 is as follows:

	BALANCE 09/30/11	ADDITIONS/ (PROVISIONS)	RETIREMENTS	BALANCE 09/30/12
<b>Governmental Activities:</b>				
Nondepreciable Assets:				
Land	\$ 14,000			\$ 14,000
Total nondepreciable assets	14,000			14,000
Depreciable Assets:				
Building and leasehold	253,718			253,718
Furniture, fixtures and equipment	209,109			209,109
Total depreciable assets	462,827			462,827
Less accumulated depreciation	(401,058)	\$ (20,222)		(421,280)
Total capital assets being depreciated, net	61,769	(20,222)		41,547
Total capital assets	\$ 75,769	\$ (20,222)		\$ 55,547

Depreciation expense for the year ended September 30, 2012 totaled \$20,222 and was charged to functions/programs of the government-wide statement of activities as follows:

<b>Governmental Activities:</b>	
Administration:	
Rent related pools	\$ 5,872
Local expenditures	3,834
Indirect costs	<u>10,516</u>
Total depreciation expense	<u>\$ 20,222</u>

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(3) DETAILED NOTES ON ALL FUNDS - CONTINUED**

**(F) Unearned Revenue**

The following is a summary of unearned and unavailable revenue at September 30, 2012 for governmental funds:

PROGRAM	COMPLETED GRANTS	OPEN GRANTS	DUES	LOCAL AND OTHER	TOTAL
Disaster Recovery	\$ 5,962	\$ 6,002		\$ 269,758	\$ 281,722
Area Agency on Aging	2,103	27,108		25	29,236
Regional Housing Authority	4,537			79,900	84,437
Emergency Communications	71,647	329,569			401,216
Homeland Security		1,388			1,388
Criminal Justice Service to At Risk Youth	35			25,655	25,690
Social Services Program		365		729	1,094
Regional Services Administration		132,947		21	132,968
		33,519		8,699	42,218
		136,825	\$ 65,472	1,358	203,655
<b>Total</b>	<b>\$ 84,284</b>	<b>\$ 667,723</b>	<b>\$ 65,472</b>	<b>\$ 386,145</b>	<b>\$ 1,203,624</b>

Included above in Regional Housing Authority is unavailable revenue of \$79,698.

**(G) Employees Retirement Plan**

DETCOG has established a qualified money-purchase defined contribution retirement plan covering all full-time permanent employees who have completed six months of service and who are at least 21 years of age. The plan, administered by the International City Management Association Retirement Corporation, qualifies under Section 401(a) of the Internal Revenue Code. DETCOG made contributions of 7.50% of employee earnings to the plan for the year ended September 30, 2012. Employees hired after October 1, 2000 are not fully vested in the plan until they have been employed by DETCOG for 7 years. All other participants are 100% vested in the plan. The plan allows employees to make voluntary contributions. DETCOG's contributions of \$142,563 were charged to the employee benefit cost pool for the year ended September 30, 2012. Employee contributions were \$34,530 for the year ended September 30, 2012.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**(3) DETAILED NOTES ON ALL FUNDS - CONTINUED**

**(H) Restricted Fund Balance**

	EMERGENCY COMMUNICATIONS	REGIONAL HOUSING AUTHORITY	TOTAL
Restricted assets:			
Cash and cash equivalents	\$ 462,822	\$ 1,568,263	\$ 2,031,085
Grants receivable	28,000	152,461	180,461
Other receivables	35	83,811	83,846
Due from other funds		68,753	68,753
Prepaid items	285	10,206	10,491
	<hr/>		
Total restricted assets	491,142	1,883,494	2,374,636
	<hr/>		
Liabilities payable from restricted assets:			
Accounts payable	71,779	37,784	109,563
Other accrued expenses		79,155	79,155
Due to other funds	18,147		18,147
Unearned revenues	401,216	84,437	485,653
	<hr/>		
Total liabilities payable from restricted assets	491,142	201,376	692,518
	<hr/>		
Total restricted fund balance		\$ 1,682,118	\$ 1,682,118
	<hr/> <hr/>		

The Commission on State Emergency Communications requires the excess of emergency fees and other earned revenue over expenditures be reported as restricted fund balance. The Emergency Communications program restricted fund balance was \$0 at September 30, 2012.

The U.S. Department of Housing and Urban Development (HUD) requires that an operating reserve be maintained to account for the excess of administrative and other fees earned over administrative expenditures related to Section 8 program funds, since any excess fund balance is restricted to expenditure for the Regional Housing Authority program. This restricted fund balance totaled \$1,682,118 at September 30, 2012.

**(I) Operating Lease Obligations**

During the year, DETCOG leased office space and equipment under operating leases for varying lengths of time. The operating leases can be cancelled with ninety days written notice, cancelled with written notice if not appropriated in the current year budget, renewed or replaced by other leases. Rental expense under operating leases for the year ended September 30, 2012 was \$190,437 for office space and \$27,433 for equipment.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2012**

**3) DETAILED NOTES ON ALL FUNDS - CONTINUED**

**(J) Contingencies**

DETCOG has received federal and state grant awards. These awards are subject to financial and compliance audits by the grantors or their representatives and regulatory authorities. The purpose of the audits is to ensure compliance with conditions relating to the granting of funds and other reimbursement regulations. DETCOG's management believes that any liability for reimbursement which may arise as the result of these audits would not be material to the financial position of DETCOG.

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

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

Audits of the subrecipients' expenditures for the year ended September 30, 2012 have not been completed. Based on prior experience, DETCOG management believes that DETCOG will not incur significant losses from possible grant disallowances.

**(K) Related Party Transactions**

The Executive Director of DETCOG is a board member of Walter G. Diggles Foundation, First National Bank of Jasper, East Texas Coalition, Three Rivers Council, Boy Scouts of America, W. G. Diggles & Associates, Inc. Hands Up Partners, Inc., Pineywoods Economic Partnership and New Lighthouse Church of God in Christ. There were no federal or state grant funds awarded to any of these related organizations for the year ended September 30, 2012. First National Bank of Jasper is DETCOG's depository bank. The Executive Director is also a board member of the Deep East Texas Region 100 Club, Deep East Texas Certified Development Corporation (DETRCDC) and Deep East Texas Regional Housing Corporation which are operated by DETCOG. For the year ended September 30, 2012, DETCOG recorded expenditures of \$18 relating to DETRCDC. DETCOG had a receivable of \$12 from DETRCDC at September 30, 2012.

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**OTHER FINANCIAL INFORMATION**



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**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
COMBINING BALANCE SHEET - GENERAL FUND  
SEPTEMBER 30, 2012**

	REGIONAL HOUSING AUTHORITY	OTHER	TOTAL GENERAL FUND
<b>Assets</b>			
Cash and cash equivalents		\$ 68,280	\$ 68,280
Receivables (net of allowance for uncollectible):			
Grants		1,789,273	1,789,273
Other		111,431	111,431
Due from other funds		18,147	18,147
Prepaid items		43,288	43,288
Restricted assets:			
Cash and cash equivalents	\$ 1,568,263	462,822	2,031,085
Grants receivable - net	152,461	28,000	180,461
Other receivables - net	83,811	35	83,846
Due from other funds	68,753		68,753
Prepaid items	10,206	285	10,491
<b>Total assets</b>	<b>\$ 1,883,494</b>	<b>\$ 2,521,561</b>	<b>\$ 4,405,055</b>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable		\$ 1,050,745	\$ 1,050,745
Accrued compensated absences		194,546	194,546
Other accrued expenses		68,049	68,049
Due to other funds		68,753	68,753
Liabilities payable from restricted assets:			
Accounts payable	\$ 37,784	71,779	109,563
Other accrued expenses	79,155		79,155
Due to other funds		18,147	18,147
Unearned revenue	84,437	401,216	485,653
Unearned revenue		717,971	717,971
<b>Total liabilities</b>	<b>201,376</b>	<b>2,591,206</b>	<b>2,792,582</b>
<b>Fund Balance</b>			
Fund balance (deficit):			
Nonspendable - prepaid items		53,779	53,779
Restricted - grant programs	1,682,118		1,682,118
Unassigned		(123,424)	(123,424)
<b>Total fund balance</b>	<b>1,682,118</b>	<b>(69,645)</b>	<b>1,612,473</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,883,494</b>	<b>\$ 2,521,561</b>	<b>\$ 4,405,055</b>

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	REGIONAL HOUSING AUTHORITY	OTHER	TOTAL GENERAL FUND
<b>Revenues</b>			
Federal, state and local grants	\$ 11,234,162	\$ 10,236,054	\$ 21,470,216
Membership dues		55,826	55,826
Sustaining local dues		8,075	8,075
Investment earnings	408	6,853	7,261
Miscellaneous income	132,584	27,408	159,992
Grant matching funds:			
DETCOG cash matching		125,158	125,158
Subcontractor cash contributions		140,651	140,651
Subcontractor in-kind contributions		92,333	92,333
 Total revenues	 <u>11,367,154</u>	 <u>10,692,358</u>	 <u>22,059,512</u>
<b>Expenditures</b>			
Administration		546,869	546,869
Disaster Recovery		3,651,455	3,651,455
Area Agency on Aging		2,987,486	2,987,486
Regional Housing Authority	11,295,360		11,295,360
Emergency Communications		1,672,145	1,672,145
Homeland Security		346,516	346,516
Criminal Justice		388,010	388,010
Social Services Program		161,237	161,237
Service to At Risk Youth		527,637	527,637
Retired and Senior Volunteer Program		200,924	200,924
Regional Services		245,008	245,008
 Total expenditures	 <u>11,295,360</u>	 <u>10,727,287</u>	 <u>22,022,647</u>
Excess (deficiency) of revenues over expenditures	 <u>71,794</u>	 <u>(34,929)</u>	 <u>36,865</u>
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	924,815		924,815
Operating transfers out	(924,815)		(924,815)
 Total other financing sources (uses)	 <u></u>	 <u></u>	 <u></u>
Net change in fund balance	71,794	(34,929)	36,865
Fund balance - beginning	<u>1,610,324</u>	<u>(34,716)</u>	<u>1,575,608</u>
Fund balance - ending	<u>\$ 1,682,118</u>	<u>\$ (69,645)</u>	<u>\$ 1,612,473</u>

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
COMBINING BALANCE SHEET  
REGIONAL HOUSING AUTHORITY  
SEPTEMBER 30, 2012**

REAC LINE NO.		HOUSING CHOICE VOUCHERS	DISASTER VOUCHER PROGRAM	DISASTER HOUSING ASSISTANCE PAYMENTS	DISASTER HOUSING ASSISTANCE PAYMENTS - IKE	VETERAN AFFAIRS SUPPORTIVE HOUSING	TOTAL
<b>Assets</b>							
111	Cash - administrative	\$ 1,129,618					\$ 1,129,618
113	Cash - other restricted	355,882					355,882
115	Cash - restricted for payment of current liabilities	78,226	\$ 2,297		\$ 2,240		82,763
121	Accounts receivable - PHA projects	3,708					3,708
122	Accounts receivable - HUD other projects				152,461		152,461
125	Accounts receivable - miscellaneous	38,322					38,322
126.2	Allowance for doubtful accounts - other	(35,414)					(35,414)
128	Fraud recovery	513,775					513,775
128.1	Allowance for doubtful accounts - fraud	(436,580)					(436,580)
142	Prepaid items	10,206					10,206
144	Inter program due from	68,753					68,753
190	Total assets	<u>\$ 1,726,496</u>	<u>\$ 2,297</u>		<u>\$ 154,701</u>		<u>\$ 1,883,494</u>
<b>Liabilities and Fund Balance</b>							
<b>Liabilities</b>							
312	Accounts payable	\$ 37,784					\$ 37,784
342	Deferred revenue	79,900					79,900
345	Other current liabilities	78,226	\$ 2,297		\$ 2,240		82,763
346	Accrued liabilities	929					929
300	Total liabilities	<u>196,839</u>	<u>2,297</u>		<u>2,240</u>		<u>201,376</u>
<b>Fund Balance</b>							
509.2	HAP fund balance	325,546			123,481		449,027
512.2	Administrative fee	1,204,111			28,980		1,233,091
513	Total fund balance	<u>1,529,657</u>			<u>152,461</u>		<u>1,682,118</u>
600	Total liabilities and fund balance	<u>\$ 1,726,496</u>	<u>\$ 2,297</u>		<u>\$ 154,701</u>		<u>\$ 1,883,494</u>

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
REGIONAL HOUSING AUTHORITY  
SEPTEMBER 30, 2012**

REAC LINE NO.		HOUSING CHOICE VOUCHERS	DISASTER VOUCHER PROGRAM	DISASTER HOUSING ASSISTANCE PAYMENTS	DISASTER HOUSING ASSISTANCE PAYMENTS - IKE	VETERAN AFFAIRS SUPPORTIVE HOUSING	TOTAL
<b>Revenues</b>							
70600	HUD operating grants	\$10,877,881					\$10,877,881
70800	Other governmental grants				\$ 358,578		358,578
71100	Investment income	408					408
71400	Fraud recovery	50,793			300		51,093
71500	Other revenues	81,491					81,491
70000	Total revenues	<u>11,010,573</u>			<u>358,878</u>		<u>11,369,451</u>
<b>Expenditures</b>							
91100	Administration salaries	475,728			40,365		516,093
91200	Auditing fees	3,765					3,765
91400	Advertising	3,762					3,762
91500	Employee benefits	161,748			13,724		175,472
91600	Office	237,056			2,601		239,657
91800	Travel	49,256			1,888		51,144
91810	Allocated overhead	168,418			12,981		181,399
91900	Other administrative	83,974			2,037		86,011
92100	Tenant services salaries	47,960					47,960
92300	Tenant services benefits	16,307					16,307
96200	Other general	21,316	\$ 2,297				23,613
97300	Housing assistance	9,800,339			124,896		9,925,235
97350	HAP portability-in	27,239					27,239
90000	Total expenditures	<u>11,096,868</u>	<u>2,297</u>		<u>198,492</u>		<u>11,297,657</u>
	Excess (deficiency) of revenues over expenditures	<u>(86,295)</u>	<u>(2,297)</u>		<u>160,386</u>		<u>71,794</u>
<b>Other Financing Sources (Uses)</b>							
10093	Transfers in	924,815					924,815
10094	Transfers out		(26,023)	\$ (410,503)	(367,844)	\$ (120,445)	(924,815)
10100	Total other financing sources (uses)	<u>924,815</u>	<u>(26,023)</u>	<u>(410,503)</u>	<u>(367,844)</u>	<u>(120,445)</u>	
10000	Net change in fund balance	838,520	(28,320)	(410,503)	(207,458)	(120,445)	71,794
11030	Fund balance - beginning	691,137	28,320	410,503	359,919	120,445	1,610,324
	Fund balance - ending	<u>\$ 1,529,657</u>			<u>\$ 152,461</u>		<u>\$ 1,682,118</u>

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF INDIRECT COSTS - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
Salaries	\$ 502,532	\$ 547,832	\$ 526,838	\$ 20,994
Benefits	170,861	186,263	179,125	7,138
Staff travel	53,000	53,000	53,012	(12)
Contract services	21,000	21,000	19,787	1,213
Space costs	106,393	106,393	114,021	(7,628)
Equipment costs	4,000	4,000	3,864	136
Other costs:				
Legal	9,000	9,000	11,685	(2,685)
Supplies	21,500	21,500	15,806	5,694
Postage	7,800	7,800	8,237	(437)
Printing and copying	20,000	20,000	13,367	6,633
Communications	21,000	21,000	14,089	6,911
Equipment lease and maintenance	4,800	4,800		4,800
Audit	45,000	45,000	48,849	(3,849)
Member relations	9,000	9,000	5,279	3,721
Dues and subscriptions	13,500	13,500	15,366	(1,866)
Insurance	10,000	10,000	7,810	2,190
Depreciation	15,700	15,700	10,516	5,184
Public notices	1,000	1,000		1,000
Publications	5,000	5,000	9,087	(4,087)
Staff development	9,000	9,000	19,595	(10,595)
Storage space rental	2,520	2,520	2,520	
<b>Total indirect costs</b>	<b>\$1,052,606</b>	<b>\$1,113,308</b>	<b>\$1,078,853</b>	<b>\$ 34,455</b>
Indirect Costs Allocation:				
Indirect costs charged to grants	\$ 728,429	\$ 713,860	\$ 740,303	\$ 26,443
Indirect costs carryover	450,594	437,596	437,596	
Indirect costs carried forward	(126,517)	(38,148)	(99,046)	(60,898)
<b>Total indirect costs allocation</b>	<b>\$1,052,506</b>	<b>\$1,113,308</b>	<b>\$1,078,853</b>	<b>\$ (34,455)</b>
Indirect Cost Rate Oct. 1 - Sep. 30:				
Salaries and benefits			<u>24.00%</u>	
Indirect and Administrative Costs as a Percentage of Modified Direct Operations			<u>3.42%</u>	

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF EMPLOYEE BENEFITS - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
Health and accident insurance	\$ 575,819	\$ 575,819	\$ 571,757	\$ 4,062
Long term disability and life insurance	27,009	27,009	26,787	222
Workers' compensation insurance	11,070	11,070	6,010	5,060
Payroll taxes	226,459	237,619	231,738	5,881
Retirement	150,417	150,417	142,563	7,854
Incentives		50,000	50,000	
<b>Total employee benefits</b>	<b>\$ 990,774</b>	<b>\$1,051,934</b>	<b>\$1,028,855</b>	<b>\$ 23,079</b>
<b>Basis for Employee Benefits Allocation:</b>				
Salaries at regular rate			\$2,826,847	
Salaries at other rates			<u>                    </u>	
<b>Total salaries</b>			<b><u>\$2,826,847</u></b>	
<b>Employee Benefits Allocation:</b>				
Employee benefits at regular rate			\$ 961,128	
Employee benefits at other rates			<u>                    </u>	
Employee benefits charged to grants			961,128	
Employee benefits carryover			105,506	
Employee benefits carried forward			<u>(37,779)</u>	
<b>Total employee benefits</b>			<b><u>\$1,028,855</u></b>	
<b>Employee benefit regular rate</b>			<b><u>34.00%</u></b>	
<b>Personnel:</b>				
Salaries			\$2,826,847	
Employee benefits			<u>961,128</u>	
<b>Total personnel</b>			<b><u>\$3,787,975</u></b>	

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
GRANTOR AGENCIES/GRANT PROGRAMS  
ABBREVIATION KEY  
SEPTEMBER 30, 2012**

**ABBREVIATION FEDERAL**

EDA	Economic Development Administration (U. S. Department of Commerce)
HUD	U. S. Department of Housing and Urban Development
HHS	U. S. Department of Health and Human Services
FEMA	Federal Emergency Management Agency
RSVP	Retired and Senior Volunteer Program
ARRA	American Recovery and Reinvestment Act

**STATE**

DADS	Texas Department on Aging and Disability Services
CJD	Texas Office of the Governor - Criminal Justice Division
TDHHS	Texas Department of Health and Human Services Commission
CSEC	Texas Commission on State Emergency Communications
GLO	Texas General Land Office
TDHCA	Texas Department of Housing and Community Affairs
TCEQ	Texas Commission on Environmental Quality
DFPS	Texas Department of Family and Protective Services
TDRA	Texas Department of Rural Affairs

**OTHER**

AAA	Area Agency on Aging
CBO	Community Based Organization
CDBG	Community Development Block Grant
DETRCDC	Deep East Texas Regional Certified Development Corporation
DHAP	Disaster Housing Assistance Payments
DVP	Disaster Voucher Program
HCV	Housing Choice Vouchers
HGAC	Houston-Galveston Area Council
HOC	Home Ownership Counselor
Housing	Regional Housing Authority
MOD	Method of Distribution
ROC	Renewing Our Communities - Lone Star Foundation
SET	South East Texas Regional Planning Commission
SSBG	Social Services Block Grant
STAR	Service to At Risk Youth
TIRN	Texas Information and Referral Network
UCAP	Universal Child Abuse and Neglect Prevention
VASH	Veteran Affairs Supportive Housing

See independent auditor's report on other financial information.



**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

PROGRAM	G/L NUMBER	PERSONNEL	INDIRECT COSTS	STAFF TRAVEL	CONTRACT SERVICES
<b>Administration</b>					
Indirect Cost Pool	101-12	\$ 705,963	\$ (740,303)	\$ 53,012	\$ 19,787
Rent Related Pools	102-12	77,408	18,578	711	
County Commissioners and County Judges	106-12				
Gulf Coast Strategic Highway	109-12				77,443
Local Enterprise	111-12				
Memorial Scholarship	120-12				
DETCOG cash matching	6699				
Local expenditures	6600				
Capital outlay and depreciation	N/A				
Total Administration		783,371	(721,725)	53,723	97,230
<b>Disaster Recovery</b>					
Disaster Recovery GLO	126-10	314,803	75,552	12,956	
Disaster Recovery GLO Rnd 2.2	126-13	30,191	7,246	1,341	
Disaster Recovery MOD/A1	131-10	61,413	14,739	1,944	
CDBG Economic Development	135-10	19,211	4,611	75	
HGAC - DET HHS Interlocal	136-11	4,858	1,166	303	
Catholic Charities Disaster Case	137-13	2,608	626		
Total Disaster Recovery		433,084	103,940	16,619	
<b>Area Agency on Aging</b>					
TIRN 2-1-1	325-12	99,264	23,824	5,954	
TIRN 2-1-1	325-13	10,472	2,513	1,159	
AAA Administration	350-12	117,364	28,167	11,583	
AAA Support Services	360-12	228,987	54,957	37,857	160
AAA Nutrition Services	370-12	24,864	5,967	226	320
AAA DADS Contract HDM	372-12	670	161	491	
AAA Transportation	380-12				
AAA Caregiver Support	390-12	29,761	7,143	1,637	160
Total Area Agency on Aging		511,382	122,732	58,907	640
<b>Service to At Risk Youth</b>					
STAR/UCAP	705-12	315,081	75,619	34,433	
STAR/UCAP	705-13	28,134	6,752	2,963	
Total Service to At Risk Youth		343,215	82,371	37,396	

SPACE COSTS	EQUIPMENT COSTS	PARTICIPANT AND SUBCONTRACTOR COSTS	OTHER COSTS AND MATCH	TOTAL EXPENDITURES	GRANT REVENUES	LOCAL REVENUES	TOTAL REVENUES
\$ 114,021 (528,325)	\$ 3,864		\$ 182,206 431,628	\$ 338,550	\$ 338,550		\$ 338,550
			14 1	14 77,444		\$ 14 77,444	14 77,444
			500 125,158 25,425 (20,222)	500 125,158 25,425 (20,222)		330 500 55,827 39,275	330 500 55,827 39,275
(414,304)	3,864		744,710	546,869	338,550	173,390	511,940
19,315 358		\$ 3,033,999	29,342 5,126 4,626 1,324 1,169	3,485,967 44,262 82,722 27,774 7,496 3,234	3,485,532 44,262 82,722 27,774	435 7,496 3,234	3,485,967 44,262 82,722 27,774 7,496 3,234
22,226		3,033,999	41,587	3,651,455	3,640,290	11,165	3,651,455
20,888 1,242 30,974 53,254 3,597	6,882	5,500 500 250 565,221 1,185,092 7,142 37,270 232,147	23,302 12 20,312 90,638 7,284 8,464 37,270 2,318	185,614 15,898 208,650 1,031,074 1,227,350 8,464 37,270 273,166	179,370 15,898 156,487 995,465 1,227,153 8,464 37,270 273,166	6,244 52,163 35,609 197	185,614 15,898 208,650 1,031,074 1,227,350 8,464 37,270 273,166
109,955	6,882	2,033,122	143,866	2,987,486	2,893,273	94,213	2,987,486
37,899 2,959			21,835 1,962	484,867 42,770	480,002 42,770	4,865	484,867 42,770
40,858			23,797	527,637	522,772	4,865	527,637

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

PROGRAM	G/L NUMBER	PERSONNEL	INDIRECT COSTS	STAFF TRAVEL	CONTRACT SERVICES
<b>Regional Housing Authority</b>					
Housing Choice Vouchers	405-11				
Housing Choice Vouchers	405-12				
Housing Choice Vouchers - Admin	406-11	15,917			
Housing Choice Vouchers - Admin	406-12	685,826	168,418	49,256	24,817
Disaster Voucher Program	413-12				
Disaster Housing Assistance Payments - Ike	415-10	54,089	12,982	1,887	
Total Regional Housing Authority		755,832	181,400	51,143	24,817
<b>Emergency Communications</b>					
9-1-1 Emergency Services	501-11				
9-1-1 Emergency Services	501-12	391,347	93,924	22,204	
9-1-1 Emergency Services	501-13	36,730	8,815	2,244	1,800
Total Emergency Communications		428,077	102,739	24,448	1,800
<b>Homeland Security</b>					
Homeland Security Planning	594-10				3,249
Homeland Security Planning	594-11	84,020	20,165	8,085	12,666
Homeland Security Planning	594-12	39,361	9,447	7,091	26,021
Interoperable Emergency Comm.	595-11	284	68	738	27,098
Total Homeland Security		123,665	29,680	15,914	69,034
<b>Criminal Justice</b>					
CJD Planner	601-12	18,937	4,545	184	
CJD Planner	601-13	943	226		
Youth Crime Prevention	607-12	18,379	4,411	2,583	
Law Enforcement Training	608-12	40,736	9,776	1,513	
Purchased Juvenile Services	609-12		620		
COPS	628-11	11,073	2,658	530	180
Total Criminal Justice		90,068	22,236	4,810	180

SPACE COSTS	EQUIPMENT COSTS	PARTICIPANT AND SUBCONTRACTOR COSTS	OTHER COSTS AND MATCH	TOTAL EXPENDITURES	GRANT REVENUES	LOCAL REVENUES	TOTAL REVENUES
		2,017		2,017			
		9,798,322		9,798,322	9,768,565	25,396	9,793,961
129,092	8,688	68,167	92	16,009	17,929		17,929
			146,256	1,280,520	1,091,387	107,296	1,198,683
					(2,297)		(2,297)
		126,933	2,601	198,492	358,578	300	358,878
129,092	8,688	9,995,439	148,949	11,295,360	11,234,162	132,992	11,367,154
	320,383		18,500	338,883	338,883		338,883
40,052	2,150	678,184	14,501	1,242,362	1,238,330	4,032	1,242,362
2,524		37,767	1,020	90,900	90,844	56	90,900
42,576	322,533	715,951	34,021	1,672,145	1,668,057	4,088	1,672,145
	33,823	24,296	26,713	88,081	88,081		88,081
9,132			4,839	138,907	138,907		138,907
6,417			2,553	90,890	90,890		90,890
			450	28,638	28,406	232	28,638
15,549	33,823	24,296	34,555	346,516	346,284	232	346,516
7,737			1,611	33,014	33,014		33,014
708			23	1,900	1,900		1,900
4,468			416	30,257	27,247	3,010	30,257
5,500		41,642	1,025	100,192	100,192		100,192
		31,008		31,628	31,628		31,628
		175,054	1,524	191,019	191,019		191,019
18,413		247,704	4,599	388,010	385,000	3,010	388,010

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF REVENUES AND EXPENDITURES BY GRANT - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

PROGRAM	G/L NUMBER	PERSONNEL	INDIRECT COSTS	STAFF TRAVEL	CONTRACT SERVICES
<b>Social Services Program</b>					
CBO Social Services DET	720-12	45,848	11,004	11,101	
CBO Social Services DET	720-13	2,608	626	348	
CBO Social Services SET	721-12	42,493	10,198	15,947	
Total Social Services Program		90,949	21,828	27,396	
<b>Retired and Senior Volunteer Program</b>					
RSVP - Federal	801-11	41,983	10,076	4,268	300
RSVP - Federal	801-12	29,289	7,029	1,962	
RSVP - DADS	802-12	27,349	6,564	2,348	
Total Retired and Senior Volunteer Program		98,621	23,669	8,578	300
<b>Regional Services</b>					
DETRCDC	902-12				
EDA Administration Planning	903-12	29,300	7,032	356	
EDA Administration Planning	903-13	38,928	9,342	1,660	
Regional Review	905-12	5,104	1,225	586	
Regional Review	905-13	362	87		
TCEQ	906-11	17,406	4,178		
TCEQ	906-12	32,061	7,695	860	
TCEQ	906-13	4,713	1,131	362	
Transportation Planning	913-11	1,837	440		
Transportation Planning	913-12				
Total Regional Services		129,711	31,130	3,824	
Total		\$ 3,787,975		\$ 302,758	\$ 194,001

SPACE COSTS	EQUIPMENT COSTS	PARTICIPANT AND SUBCONTRACTOR COSTS	OTHER COSTS AND MATCH	TOTAL EXPENDITURES	GRANT REVENUES	LOCAL REVENUES	TOTAL REVENUES
8,785			2,330	79,068	74,677	4,391	79,068
658			21	4,261		4,261	4,261
5,174			4,096	77,908	49,155	28,753	77,908
14,617			6,447	161,237	123,832	37,405	161,237
2,182			14,516	73,325	28,912	44,413	73,325
2,136			50,922	91,338	30,004	61,334	91,338
				36,261	36,261		36,261
4,318			65,438	200,924	95,177	105,747	200,924
			18	18		18	18
779			494	37,961	29,529	8,432	37,961
4,159			491	54,580	40,935	13,645	54,580
3,350			455	10,720	10,720		10,720
366			42	857	857		857
			111	21,695	21,695		21,695
6,390		40,003	409	87,418	87,324	94	87,418
401			403	7,010	7,010		7,010
891		21,168	42	24,378	24,378		24,378
364			7	371	371		371
16,700		61,171	2,472	245,008	222,819	22,189	245,008
	\$ 375,790	\$ 16,111,682	\$ 1,250,441	\$ 22,022,647	\$21,470,216	\$ 589,296	\$ 22,059,512

See independent auditor's report on other financial information.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF INSURANCE COVERAGE  
(UNAUDITED)  
SEPTEMBER 30, 2012**

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
Texas Municipal League	General Liability	10/01/11 to 10/01/12	\$1,000,000 Deductible \$0
Texas Municipal League	Errors and Omissions	10/01/11 to 10/01/12	\$1,000,000 Deductible \$1,000
Texas Municipal League	Auto Liability	10/01/11 to 10/01/12	\$500,000
Texas Municipal League	Auto Physical Damage	10/01/11 to 10/01/12	Actual cash value Deductible \$250
Texas Municipal League	Real and Personal Property	10/01/11 to 10/01/12	\$6,461,865 Deductible \$250
The Fidelity and Deposit Company	Commercial Crime Policy Employee Theft	9/01/11 to 8/31/12 9/01/12 to 8/31/13	\$500,000 Deductible \$5,000
Deep East Texas Self Insurance Fund	Workers' Compensation	7/01/11 to 6/30/12 7/01/12 to 6/30/13	Statutory

See independent auditor's report on other financial information.

**SINGLE AUDIT SECTION**



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Ted A. Lankford, CPA  
Glenda J. Hiers, CPA  
Richard A. Rudel, CPA  
Chris F. Wethington, CPA

# AL&H ALEXANDER LANKFORD & HIERS, INC.

Yvette Sidnell, CPA  
Jennifer L. Webster, CPA  
Kimber Rhodes, CPA  
Susan L. Murrell, CPA

*Certified Public Accountants, A Professional Corporation*

4000 S. Medford Dr., Lufkin, Texas 75901-5500

(936) 632-7771, FAX (936) 637-2448

E-mail: [alh@consolidated.net](mailto:alh@consolidated.net) Website: [www.alhcpa.com](http://www.alhcpa.com)

Wilbur E. Alexander, CPA  
(1940 - 2009)

## **INDEPENDENT AUDITOR'S 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***

Members of the Board of Directors  
Deep East Texas Council of Governments  
and Economic Development District  
Jasper, Texas

We have audited the financial statements of the governmental activities and the major fund of Deep East Texas Council of Governments and Economic Development District (DETCOG) as of and for the year ended September 30, 2012, which collectively comprise DETCOG's basic financial statements and have issued our report thereon dated April 17, 2013. 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

Management of DETCOG is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Deep East Texas Council of Governments and Economic Development District'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 DETCOG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DETCOG's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**INDEPENDENT AUDITOR'S 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* - CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Deep East Texas Council of Governments and Economic Development District'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*.

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

*Alexander, Lankford & Hiers, Inc.*

ALEXANDER, LANKFORD & HIERS, INC.  
Certified Public Accountants

Lufkin, Texas  
April 17, 2013

Ted A. Lankford, CPA  
Glenda J. Hiers, CPA  
Richard A. Rudel, CPA  
Chris F. Wethington, CPA

# AL&H ALEXANDER LANKFORD & HIERS, INC.

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*Certified Public Accountants, A Professional Corporation*

4000 S. Medford Dr., Lufkin, Texas 75901-5500

(936) 632-7771, FAX (936) 637-2448

E-mail: [alh@consolidated.net](mailto:alh@consolidated.net) Website: [www.alhcpa.com](http://www.alhcpa.com)

Wilbur E. Alexander, CPA  
(1940 - 2009)

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

Members of the Board of Directors  
Deep East Texas Council of Governments  
and Economic Development District  
Jasper, Texas

### Compliance

We have audited Deep East Texas Council of Governments and Economic Development District's (DETCOG) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of DETCOG's major federal and state programs for the year ended September 30, 2012. DETCOG's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of DETCOG's management. Our responsibility is to express an opinion on DETCOG'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *State of Texas Single Audit Circular*, issued by the Governor's Office of Budget and Planning. Those standards, OMB Circular A-133, and the *State of Texas Single Audit Circular*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about DETCOG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of DETCOG's compliance with those requirements.

In our opinion, Deep East Texas Council of Governments and Economic Development District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2012.

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


Internal Control Over Compliance

Management of DETCOG is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered DETCOG's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DETCOG's internal control over compliance.

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

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

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



ALEXANDER, LANKFORD & HIERS, INC.  
Certified Public Accountants

Lufkin, Texas

April 17, 2013

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
<b>FEDERAL AWARDS</b>				
<u>U. S. Department of Commerce</u>				
Economic Development - Support for Planning Organizations				
903-12	Direct	11.302	08-83-04759	\$ 29,529
903-13	Direct	11.302	08-83-04759	40,935
	Total for CFDA Number 11.302			70,464
	Total U. S. Department of Commerce			70,464
<u>U. S. Department of Housing and Urban Development</u>				
Disaster Voucher Program				
413	Direct	14.DVP	TX512D	(2,297)
Disaster Housing Assistance Program - Ike				
415	Direct	14.IKE	TX512I	358,578
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii *				
126-10	Passed through Texas General Land Office	14.228	10-5281-0000-5287	3,485,532
126-13	Passed through Texas General Land Office	14.228	12-476-000-6641	44,262
131-10	Passed through Texas General Land Office	14.228	09-327-000-5346	82,722
135-10	Passed through Texas General Land Office	14.228	10-5312-000-5320	27,774
905-12	Passed through Texas Dept. of Agriculture	14.228	C711205	10,720
905-13	Passed through Texas Dept. of Agriculture	14.228	C712205	857
	Total for CFDA Number 14.228			3,651,867
Section 8 Housing Choice Vouchers *				
405	Direct	14.871	TX24512VO	9,768,565
406	Direct	14.871	TX512AF	1,036,602
406	Direct	14.871	TX512FSF	72,714
	Total for CFDA Number 14.871			10,877,881
	Total U. S. Department of Housing and Urban Development			14,886,029
<u>U. S. Department of Justice</u>				
ARRA - Public Safety Partnership and Community Policing Grant				
628-11	Direct	16.710	2010CKWX0554	191,019
	Total U.S. Department of Justice			191,019

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
<b>FEDERAL AWARDS - CONTINUED</b>				
<u>U. S. Department of Transportation</u>				
State Planning and Research				
913-11	Passed through Texas Dept. of Transportation	20.515	51151F7134	24,378
913-12	Passed through Texas Dept. of Transportation	20.515	51217F7112	371
	Total for CFDA Number 20.515			<u>24,749</u>
	Total U. S. Department of Transportation			<u>24,749</u>
<u>U. S. Department of Health and Human Services</u>				
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation				
360-12	Passed through Texas Dept. on Aging and Disability Services	93.041	539-11-0014-00001	<u>10,262</u>
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals				
360-12	Passed through Texas Dept. on Aging and Disability Services	93.042	539-11-0014-00001	<u>25,007</u>
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services				
360-12	Passed through Texas Dept. on Aging and Disability Services	93.043	539-11-0014-00001	<u>32,390</u>
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers *				
Various	Passed through Texas Dept. on Aging and Disability Services	93.044	539-11-0014-00001	<u>812,299</u>
Special Programs for the Aging - Title III, Part C - Nutrition Services *				
Various	Passed through Texas Dept. on Aging and Disability Services	93.045	539-11-0014-00001	<u>1,025,033</u>
National Family Caregiver Support, Title III, Part E				
Various	Passed through Texas Dept. on Aging and Disability Services	93.052	539-11-0014-00001	<u>246,170</u>
Nutrition Services Incentive Program *				
370-12	Passed through Texas Dept. on Aging and Disability Services	93.053	539-11-0014-00001	<u>243,604</u>
Affordable Care Act - Medicare Improvements for Patients and Providers				
360-12	Passed through Texas Dept. on Aging and Disability Services	93.518	539-11-0014-00001	<u>21,655</u>

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
<b>FEDERAL AWARDS - CONTINUED</b>				
<u>U. S. Department of Health and Human Services -</u>				
<u>Continued</u>				
Promoting Safe and Stable Families				
705-12	Passed through Texas Dept. of Family and Protective Services	93.556	23429981	47,253
Social Services Block Grant				
372-12	Passed through Texas Dept. on Aging and Disability Services	93.667	001019592	8,464
ARRA - Communities Putting Prevention To Work:				
Chronic Disease Self-Management Program				
360-12	Passed through Ark-Tex Council of Governments	93.725	539-11-0005-00001	9,630
360-12	Passed through Ark-Tex Council of Governments	93.725	539-11-0003-00001	3,000
Total for CFDA Number 93.725				12,630
Centers for Medicare and Medicaid Services (CMS)				
Research, Demonstrations and Evaluations				
360-12	Passed through Texas Dept. on Aging and Disability Services	93.779	539-11-0014-00001	116,172
Money Follows the Person Rebalancing Demonstration				
360-12	Passed through Texas Dept. on Aging and Disability Services	93.791	539-11-0014-00001	2,869
Total U.S. Department of Health and Human Services				2,603,808
<u>Corporation for National and Community Service</u>				
<u>Retired and Senior Volunteer Program</u>				
801-11	Direct	94.002	11SRWTX008	28,912
801-12	Direct	94.002	11SRWTX008	30,004
802-12	Passed through Texas Dept. on Aging and Disability Services	94.002	11RZWTX013	36,261
Total for CFDA Number 94.002				95,177
Total Corporation for National and Community Service				95,177

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.



**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
<b>FEDERAL AWARDS - CONTINUED</b>				
<u>U.S. Department of Homeland Security</u>				
Interoperable Emergency Communications				
595-11	Passed through Texas Dept. of Public Safety - Division of Homeland Security Homeland Security Grant Program *	97.055	2010-IP-T0-0005	28,406
594-12	Passed through Texas Dept. of Public Safety - Division of Homeland Security Homeland Security Grant Program	97.067	EMW-2011-SS-00019	90,890
594-10	Passed through Texas Dept. of Public Safety - Division of Homeland Security	97.073	2009-SS-T9-0064	88,081
594-11	Passed through Texas Dept. of Public Safety - Division of Homeland Security	97.073	2010-SS-T0-0008	138,907
	Total for CFDA Number 97.073			226,988
	Total U.S. Department of Homeland Security			346,284
	Total Federal Awards			18,217,530
* Indicates clustered program under OMB Circular A-133 Compliance Supplement				
<b>STATE AWARDS</b>				
<u>Texas Commission on State Emergency</u>				
<u>Communications</u>				
9-1-1 Emergency Services				
501-11	Direct		DETCOG	338,883
501-12	Direct		DETCOG	1,238,330
501-13	Direct		DETCOG	90,844
	Total for 9-1-1 Emergency Services			1,668,057
	Total Texas Commission on State Emergency Communications			1,668,057
<u>Texas Commission on Environmental Quality</u>				
Regional Solid Waste Grants Program				
906-11	Direct		582-10-91883	21,695
906-12	Direct		582-12-10149	87,324
906-13	Direct		582-12-10149	7,010
	Total for Municipal Solid Waste Control			116,029
	Total Texas Commission on Environmental Quality			116,029

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
<b>STATE AWARDS - CONTINUED</b>				
<u>Texas Department on Aging and Disability Services</u>				
	State General Revenue			
Various	Direct		539-11-0014-00001	131,387
360-12	State General Revenue - State Highway Fund 0006 Direct		539-11-0014-00001	<u>6,862</u>
	Total Texas Department on Aging and Disability Services			<u>138,249</u>
<u>Texas Department of Family and Protective Services</u>				
	Services to At Risk Youth - State General Revenue			
705-12	Direct		23429981	401,270
705-13	Direct		24028206	<u>42,595</u>
	Total for Services to At Risk Youth - State General Revenue			<u>443,865</u>
	Services to At Risk Youth - Children's Trust Fund			
705-12	Direct		23429981	31,479
705-13	Direct		24028206	<u>175</u>
	Total for Services to At Risk Youth - Children's Trust Fund			<u>31,654</u>
	Total Texas Department of Family and Protective Services			<u>475,519</u>
<u>Texas Health and Human Services Commission</u>				
	Community Outreach and Assistance for DET			
720-12	Passed through East Texas Coalition		HHSC 529-06- 0405-00011	<u>74,677</u>
	Community Outreach and Assistance for SET			
721-12	Passed through East Texas Coalition		HHSC 529-06- 0405-00012	<u>49,155</u>
	Texas I & R Network			
325-12	Direct		HHSC 529-11- 0001-0006A	166,034
325-13	Direct		HHSC 529-11- 0001-0006B	<u>15,862</u>
	Total for Texas I & R Network			<u>181,896</u>

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS-THROUGH GRANTOR'S NUMBER	EXPENDITURES
<b>STATE AWARDS - CONTINUED</b>				
<u>Texas Health and Human Services Commission - Continued</u>				
Texas I & R Network (Child Care Information & Referral)				
325-12	Direct		HHSC 529-11- 0001-00020A	13,336
325-13	Direct		HHSC 529-11- 0001-00020B	35
	Total for Texas I & R Network (Child Care Information & Referral)			<u>13,371</u>
	Total Texas Health and Human Services Commission			<u>319,099</u>
<u>Texas Office of the Governor</u>				
Purchase of Juvenile Justice Alternatives				
609-12	Direct		SF-12-J20-14339-13	<u>31,628</u>
Regional Criminal Justice Coordination				
601-12	Direct		30020352	33,014
601-13	Direct		30030325	<u>1,900</u>
	Total for Regional Criminal Justice Coordination			<u>34,914</u>
Regional Youth Prevention/Community Watch				
607-12	Direct		SF-12-J20-14317-13	<u>27,247</u>
Regional Law Enforcement Training				
608-12	Direct		SF-12-A10-14289-12	<u>100,192</u>
	Total Texas Office of the Governor			<u>193,981</u>
	Total State Awards			<u>2,910,934</u>
	Total Federal and State Awards			<u><u>\$ 21,128,464</u></u>

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF  
FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**(1) General**

The Schedule of Expenditures of Federal and State Awards presents the activity of all applicable federal and state awards of Deep East Texas Council of Governments and Economic Development District (DETCOG). DETCOG'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 governmental agencies, are included on the Schedule of Expenditures of Federal and State Awards.

**(2) Basis of Accounting**

The Schedule of Expenditures of Federal and State Awards is prepared on the modified accrual basis of accounting. The modified accrual basis of accounting is described in the notes to financial statements. Federal and state grants are considered to be earned to the extent of expenditures made under the provisions of the grant; and accordingly, when such funds are received, they are recorded as unearned revenue until earned.

**(3) Relationship to Basic Financial Statements**

Federal and state award programs are reported in DETCOG's basic financial statements in the General Fund. Total federal and state awards per the accompanying Schedule of Expenditures of Federal and State Awards include all federal and state revenues.

**(4) State Awards Guidelines**

State awards are subject to the *State of Texas Single Audit Circular* (TSAC) requirements. Such guidelines are consistent with those required under the Single Audit Act of 1996, OMB Circular A-133 and *Government Auditing Standards*, issued by the Comptroller General of the United States.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**A. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: UNQUALIFIED

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

**Federal and State Awards**

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

Type of auditor's report issued on compliance for major programs: UNQUALIFIED

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 or TSAC?  Yes  No

Identification of major programs:

CFDA Number(s)	Name of Federal or State Program or Cluster
Federal:	
14.228	CDBG - State - Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
93.044	Aging Cluster Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services
93.053	Nutrition Services Incentive Program

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**A. Summary of Auditor's Results - Continued**

**Federal and State Awards - Continued**

Identification of major programs - continued:

CFDA Number(s)	Name of Federal or State Program or Cluster
State:	
N/A	9-1-1 Emergency Services
N/A	Services to At Risk Youth - State General Revenue
N/A	Services to At Risk Youth - Children's Trust Fund
Dollar threshold used to distinguish between type A and type B federal programs: <span style="float: right;"><u>\$546,526</u></span>	
Dollar threshold used to distinguish between type A and type B state programs: <span style="float: right;"><u>\$300,000</u></span>	
Auditee qualified as low-risk auditee? <span style="float: right;"><u>X</u> Yes      ___ No</span>	

**B. Financial Statements Findings**

Findings related to the financial statements required to be reported under GAS:

None

**C. Federal and State Award Findings and Questioned Costs**

Required to be reported in accordance with section 510(a) of Circular A-133 or TSAC:

PROGRAM	FINDING/NONCOMPLIANCE	QUESTIONED COSTS
None	None	\$ 0

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS  
AND ECONOMIC DEVELOPMENT DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
SEPTEMBER 30, 2012**

<b>PROGRAM</b>	<b>FINDING/NONCOMPLIANCE</b>	<b>QUESTIONED COSTS</b>
<hr/>		
There were no prior year audit findings relative to federal and state awards.		

See accompanying independent auditor's report on schedule of expenditures of federal and state awards.