

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND
ECONOMIC DEVELOPMENT DISTRICT

ANNUAL FINANCIAL REPORT

September 30, 2016

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INTRODUCTORY SECTION

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
PRINCIPAL OFFICIALS
September 30, 2016

EXECUTIVE COMMITTEE (JULY 2016 - JUNE 2017)

Honorable Lynn Torres, Lufkin City CouncilwomanPresident
Honorable Daphne Session, Houston County Attorney,
Houston County Minority Representative..... First Vice President
Honorable Bill Holder, Trinity River Authority..... Second Vice President
Honorable Samye Johnson, San Augustine County Judge Third Vice President
Honorable Joyce Johnson, Center City CouncilwomanSecretary
Honorable Alton Scott, Jasper City Councilman Treasurer
Honorable Wes Suiter, Angelina County Judge Immediate Past President

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
PRINCIPAL OFFICIALS - CONTINUED
September 30, 2016

ADMINISTRATIVE STAFF

Mr. Lonnie Hunt..... Executive Director
Ms. Cynthia Trowbridge..... Director of Administration
Ms. CaTina Boykin Controller
Ms. Holly Anderson Director of Area Agency on Aging
Ms. Danielle Sells Director of Criminal Justice
Ms. Ethel Bluitt Director of Regional Housing Authority
Mr. Rusty Phillips..... Assistant Executive Director/Director of Regional Services
Ms. Pam Dunn Director of Retired and Senior Volunteer Program
Mr. Van Bush..... Director of Emergency Communications
Mr. John McDowell..... Director of Homeland Security
Mr. Jeff Reed Director of Service to At Risk Youth
Ms. Janett Lewis Director of Disaster Recovery

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
FINANCE DEPARTMENT
September 30, 2016

The Finance team's primary goal and objective is to comply with generally accepted accounting principles to record the financial activities of all programs. The accounting procedures are designed to promote efficient and effective management and to safeguard the assets of the Deep East Texas Council of Governments and Economic Development District. During 2016, the Finance Staff consists of:

Ms. CaTina BoykinController
Ms. Renekil HamiltonSenior Accountant
Ms. Melissa Furay Data Entry Operator/Finance Assistant
Mr. Jason Riley Disaster Recovery Accountant
Ms. Donna Davidson Section 8 Accountant

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Deep East Texas Council of Governments
And Economic Development District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Deep East Texas Council of Governments and Economic Development District (DETCOG) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise DETCOG's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to DETCOG's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DETCOG's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 funds of Deep East Texas Council of Governments and Economic Development District as of September 30, 2016, the respective changes in financial position for the Major Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertainties Regarding FBI's Investigation and Previous Executive Director's Indictment

As discussed in the Notes, in February 2014, the Federal Bureau of Investigation (FBI) conducted a search of DETCOG's premises in Jasper, Texas and seizure of certain documentary evidence. In December 2015, DETCOG's previous Executive Director was indicted. The possible outcome of these matters cannot be presently determined. Accordingly, no provision for any liability that may result from these matters has been made in the financial statements. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Deep East Texas Council of Governments and Economic Development District's basic financial statements. The introductory section, supplementary information and schedule of expenditures of federal and state awards as required by Uniform Guidance and the State of Texas Single Audit Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and schedule of expenditures of federal and state awards as required by Uniform Guidance and the State of Texas Single Audit Act are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and schedule of expenditures of federal and state awards as required by Uniform Guidance and the State of Texas Single Audit Act are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of insurance coverage on page 45 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2017, 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, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Deep East Texas Council of Governments and Economic Development District's internal control over financial reporting compliance.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 27, 2017

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
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, 2016. 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 \$676,207 (*net position*). Unrestricted net position 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 position was a deficit of \$80,078.
- DETCOG's total net position (government-wide) increased by \$132,959. This is due primarily to the increase in the net position for the general fund.
- As of the close of the current fiscal year, DETCOG's general fund and grant fund reported ending fund balances of \$(85,568) and \$735,714, and an increase of \$156,736 and \$10,465 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 \$(126,626).

Overview of the Financial Statements

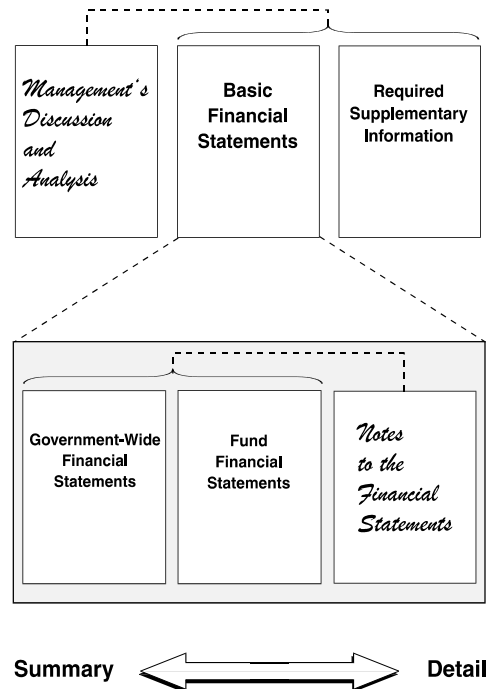
This annual report consists of three parts, *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of DETCOG:

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-1, Required Components of the Annual Financial Report



**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

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.

Government-wide Statements

The government-wide 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 position presents all of DETCOG's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources reported as net position. Over time, increase or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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 17 - 19 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*.

<i>Type of Statements</i>	Government-wide	Governmental Funds
<i>Scope</i>	Entire government (except fiduciary funds)	The activities of DETCOG that are not proprietary or fiduciary
<i>Required financial statements</i>	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of asset/deferred outflows of resources and liability/deferred inflows of resources information</i>	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Only assets and deferred outflows of resources expected to be used up and only liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
<i>Type of inflow/outflow information</i>	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

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

DETCOG maintains a general fund and a grant fund. Information is presented in the fund balance sheets and in the fund statements of revenues, expenditures and changes in fund balance for both funds.

DETCOG adopts an annual budget for all funds combined. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The fund financial statement can be found on pages 20-23 of this report.

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 24-35 of this report.

Other Financial Information. In addition to the basic financial statements and accompanying notes, this report also presents supplemental information. Supplemental information can be found on pages 40-45 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of DETCOG, assets exceeded liabilities by \$676,207 at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Position.

	2016	2015
Current and other assets	\$ 4 489 572	\$ 4 554 829
Capital assets	20 571	28 203
TOTAL ASSETS	4 510 143	4 583 032
Long-term liabilities	-	-
Other liabilities	3 833 936	4 003 188
TOTAL LIABILITIES	3 833 936	4 003 188
Net Position:		
Invested in capital assets	20 571	28 203
Restricted	735 714	701 606
Unrestricted	(80 078)	(149 965)
TOTAL NET POSITION	\$ 676 207	\$ 579 844

A portion of DETCOG's net position (3%) 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 position (109 percent) represents resources that are subject to external restrictions on how they can be used.

At the end of the current fiscal year, DETCOG is able to report a positive balance in two of the three categories of net position.

Analysis of DETCOG's Operations

The following table provides a summary of DETCOG's operations for the year ended September 30. Governmental activities increased DETCOG's net position by \$132,959, accounting for all of the increase in net position.

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

	2016	2015
Revenues:		
Program Revenues:		
Charges for service	\$ 1 505 795	\$ 2 026 390
Operating grants and contributions	25 379 830	26 758 684
General Revenues:		
Membership dues	51 076	53 869
Sustaining dues	6 900	7 975
Miscellaneous income	49 566	34 597
Unrestricted investment earnings	2 890	2 813
TOTAL REVENUES	26 996 057	28 884 328
 Expenses after Indirect Cost Allocation:		
Administration	259 115	121 400
Disaster recovery	6 733 435	10 600 215
Area agency on aging	3 746 473	5 044 094
Regional housing authority	10 857 208	10 022 739
Emergency communications	3 954 926	2 470 096
Homeland security	202 542	148 348
Criminal justice	159 386	147 469
Service to at risk youth	664 352	679 982
Retired and senior volunteer program	180 997	252 127
Regional services	104 664	301 295
TOTAL EXPENSES	26 863 098	29 787 765
CHANGE IN NET POSITION	132 959	(903 437)
Net position, beginning	579 844	1 483 281
Prior period adjustment	(36 596)	-
Net position, beginning - Restated	543 248	1 483 281
NET POSITION, ENDING	\$ 676 207	\$ 579 844

Financial Analysis of the 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 balance* 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 20, reported combined ending fund balances of \$650,146, which is an increase of \$167,201 from last year's restated fund balance total of \$482,945.

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 \$(126,626). Refer to pages 20-22 of this report for a more detailed presentation of governmental fund balances.

Budgetary Highlights

DETCOG adopts an annual budget for its general fund in September of each year. Grant fund budgets are reviewed and approved by the Board of Directors within the context of the annual budget. Although the budgets are reviewed and approved by DETCOG's Board, they are not considered legally adopted budgets or appropriations. 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 one time. Differences between the original budget and the final amended budget were significant (\$4,454,862 decrease in projected revenues and \$4,798,677 decrease in projected expenditures).

**DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Capital Asset and Debt Administration

Capital Assets. DETCOG's investment in capital assets for its governmental activities as of September 30, amounts to \$20,571 (net of accumulated depreciation). This investment in capital assets includes land, buildings and leasehold, and furniture, fixtures and equipment.

	2016	2015
Land	\$ 14 000	\$ 14 000
Buildings and leasehold	253 718	253 718
Furniture, fixtures and equipment	217 202	217 202
Less: Accumulated depreciation	(464 349)	(456 717)
TOTAL	\$ 20 571	\$ 28 203

Additional information regarding DETCOG's capital assets can be found in the Capital Assets Note on page 33 of this report.

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

Economic Factors

The vision of the Deep East Texas Council of Governments and Economic Development District is a region where all people have the skills and opportunities they need to achieve their individual dreams; a Deep East Texas where people enjoy good health, are safe and secure from harm, and share a quality standard of living. Jobs and the economy play a large part in that vision. Historically, our region has been economically distressed with high rates of unemployment and poverty. Per capita income and median household income in all our counties are well below state and national averages. Half of our counties experienced a decline in population from 2010 to 2016. Overall, the region's population grew by 1.6 percent during that period. These factors provide us with unique challenges and underscore the importance of our mission.

The unemployment rate in the region for September 2016 was 6.5 percent compared to the state average of 4.8 percent. Only one of our 12 counties had an unemployment rate at or below the state average, with individual county rates ranging from 4.7 to 10.0 percent. The downturn in oil and gas prices continued to be a factor. Hundreds of jobs were lost when one of our region's largest manufacturers, Lufkin Industries, was acquired by GE. Years of reduced timber harvesting in the four National Forests continues to hurt local economies throughout the region. In spite of these factors, retail sales in the region increased slightly from 2015 to 2016, continuing a trend of annual increases.

Disaster recovery programs resulting from Hurricane Ike have added significantly to DETCOG's budget for several years. The home building and job creating efforts that were 25% of our annual budget had largely ended by the end of 2016.

Overall, we are optimistic about the DETCOG region's future. Our strategic location, proximity to major ports, low cost of living, availability of reasonably priced land, and abundance of water resources are all great assets. Our greatest asset continues to be the people who call Deep East Texas home. A major need in many parts of our region is better access to broadband internet service and improved cellular telephone coverage.

DETCOG will continue to assist its local governments' efforts to increase jobs and strengthen their local economies. A stronger region means stronger communities.

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 of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Deep East Texas Council of Governments and Economic Development District, 210 Premier Drive, Jasper, Texas 75951.

BASIC FINANCIAL STATEMENTS

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
STATEMENT OF NET POSITION
September 30, 2016

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	\$ 1 989 301
Receivables (Net of Allowance for Uncollectible):	
Grants	2 384 224
Other	60 440
Prepaid items	55 607
Capital assets (net of accumulated depreciation)	20 571
TOTAL ASSETS	4 510 143
LIABILITIES	
Accounts payable	2 399 093
Accrued compensated absences	164 991
Other accrued expenses	202 079
Unearned revenue	1 067 773
TOTAL LIABILITIES	3 833 936
NET POSITION	
Investment in capital assets	20 571
Restricted for:	
Grants	735 714
Unrestricted	(80 078)
TOTAL NET POSITION	\$ 676 207

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

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

FUNCTIONS/PROGRAMS	<u>EXPENSES</u>	<u>INDIRECT COST ALLOCATION</u>	<u>EXPENSES AFTER ALLOCATION OF INDIRECT COSTS</u>
Governmental Activities:			
Administration	\$ 1 469 572	\$ (1 210 457)	\$ 259 115
Disaster recovery	6 632 347	101 088	6 733 435
Area agency on aging	3 418 461	328 012	3 746 473
Regional housing authority	10 573 748	283 460	10 857 208
Emergency communications	3 762 208	192 718	3 954 926
Homeland security	164 033	38 509	202 542
Criminal justice	117 363	42 023	159 386
Service to at risk youth	505 898	158 454	664 352
Retired and senior volunteer program	145 982	35 015	180 997
Regional services	<u>73 486</u>	<u>31 178</u>	<u>104 664</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 26 863 098</u>	<u>\$ -</u>	<u>\$ 26 863 098</u>

General Revenues:

Membership dues

Sustaining dues

Investment earnings

Miscellaneous income

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

Net position - Beginning of year

Prior period adjustment

NET POSITION - BEGINNING OF YEAR (RESTATED)

NET POSITION - ENDING

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

PROGRAM REVENUES		NET (EXPENSE)
CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	REVENUES AND CHANGE IN NET POSITION
\$ 37 512	\$ -	\$ (221 603)
36	6 733 399	-
1 368 131	2 378 342	-
22 496	11 078 844	244 132
1 233	3 953 692	(1)
22	202 519	(1)
-	159 385	(1)
370	663 982	-
53 012	127 985	-
<u>22 983</u>	<u>81 682</u>	<u>1</u>
<u>\$ 1 505 795</u>	<u>\$ 25 379 830</u>	<u>22 527</u>
		51 076
		6 900
		2 890
		<u>49 566</u>
		<u>110 432</u>
		<u>132 959</u>
		579 844
		<u>(36 596)</u>
		<u>543 248</u>
		<u>\$ 676 207</u>

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2016

	GENERAL FUND	GRANT FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 450	\$ 1 988 851	\$ 1 989 301
Receivables (Net Allowance for Uncollectible):			
Grants	-	2 384 224	2 384 224
Other	50 552	9 888	60 440
Due from other funds	229 252	-	229 252
Prepaid items	41 058	14 549	55 607
TOTAL ASSETS	\$ 321 312	\$ 4 397 512	\$ 4 718 824
LIABILITIES			
Accounts payable	\$ 40 555	\$ 2 358 538	\$ 2 399 093
Due to other funds	-	229 252	229 252
Accrued compensated absences	164 991	-	164 991
Other accrued expenses	14 348	187 731	202 079
Unearned revenues	186 986	880 787	1 067 773
TOTAL LIABILITIES	406 880	3 656 308	4 063 188
DEFERRED INFLOWS			
Unavailable revenue	-	5 490	5 490
TOTAL DEFERRED INFLOWS	-	5 490	5 490
FUND BALANCES			
Fund Balance (Deficit):			
Nonspendable - Prepaid items	41 058	14 549	55 607
Restricted - Grant programs	-	721 165	721 165
Unassigned	(126 626)	-	(126 626)
TOTAL FUND BALANCES	(85 568)	735 714	650 146
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 321 312	\$ 4 397 512	\$ 4 718 824

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

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2016

Amounts Reported for Governmental Activities in the Statement
of Net Position are different because:

Total fund balances - Governmental fund balance sheet	\$	650 146
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		20 571
Certain unearned revenues are not available to pay current period expenditures and, therefore, are not recognized in the governmental funds.		<u>5 490</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>676 207</u>

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

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	GENERAL FUND	GRANT FUND	TOTAL GOVERNMENTAL FUNDS
Revenues:			
Federal and state grants	\$ -	\$ 25 379 830	\$ 25 379 830
Local grants	-	345 161	345 161
Membership dues	51 076	-	51 076
Sustaining local dues	6 900	-	6 900
Investment earnings	1 830	1 060	2 890
Miscellaneous income	2 668	46 898	49 566
Grant matching revenues:			
Inkind Match	-	767 871	767 871
Local Cash Match	-	79 206	79 206
Local Cash Contributions	108 363	17 951	126 314
Local Non-Cash Match	-	236 749	236 749
TOTAL REVENUES	<u>170 837</u>	<u>26 874 726</u>	<u>27 045 563</u>
Expenditures:			
Personnel and benefits	515 625	2 717 524	3 233 149
Travel	14 200	155 138	169 338
Contract services	127 958	33 425	161 383
Equipment expense	2 945	1 431 568	1 434 513
Subcontractor expense	3 659	19 286 292	19 289 951
Other operating expense	712 454	1 854 678	2 567 132
Grant matching expense	79 206	-	79 206
Allocation to grant programs	(1 385 636)	1 385 636	-
TOTAL EXPENDITURES	<u>70 411</u>	<u>26 864 261</u>	<u>26 934 672</u>
NET INCOME	<u>100 426</u>	<u>10 465</u>	<u>110 891</u>
Other Financing Sources:			
Indirect cost pool carryforward	56 310	-	56 310
TOTAL OTHER FINANCING SOURCES:	<u>56 310</u>	<u>-</u>	<u>56 310</u>
CHANGE IN FUND BALANCE	<u>156 736</u>	<u>10 465</u>	<u>167 201</u>
Fund balance - Beginning	(205 708)	725 249	519 541
Prior period adjustment	(36 596)	-	(36 596)
FUND BALANCE - BEGINNING (RESTATED)	<u>(242 304)</u>	<u>725 249</u>	<u>482 945</u>
FUND BALANCE - ENDING	<u>\$ (85 568)</u>	<u>\$ 735 714</u>	<u>\$ 650 146</u>

The notes to the financial statements are an integral part of this 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, 2016

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

Net change in fund balance - Total governmental funds	\$ 167 201
The depreciation of capital assets used in governmental activities is not reported in the funds.	(7 632)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(26 610)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 132 959</u>

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

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 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 1967 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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 judgments, are recorded only when payment is due.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Grant revenue, 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.

DETCOG reports the following major governmental funds:

The *general fund* accounts for all financial resources of the administration.

The *grant fund* accounts for the federal and state programs.

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

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/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 and National Credit Union Administration (NCUA) insurance.

2. Receivables and Payables

On the governmental fund financial statements, activity between programs 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".

DETCOG believes that additional details of certain receivable and payable balances in the financial statements are needed to avoid the obscuring of significant components by aggregation. Therefore, disclosures are provided to disaggregate significant balances in Note 3.

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, 2016.

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.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Restricted Assets

Certain resources set aside from the federal and state agencies are classified as restricted assets on the balance sheet. These funds are restricted for use in the respective federal or state 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.

Depreciation of certain capital 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
Buildings and leasehold improvements	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. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide statement of net position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement section represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. DETCOG has no items that qualify for reporting in this category.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement section represents an acquisition of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. DETCOG has an item, unavailable revenue, that qualifies for reporting in this category and is reported in the governmental funds balance sheet. The amount is deferred and recognized as inflows of resources in the period in which the revenues become available.

8. Fund Balance

Fund balance of the governmental fund is 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.
- 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 convey 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.

Sometimes DETCOG will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is DETCOG's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Net Position Flow Assumption

Sometimes DETCOG will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is DETCOG's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. 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.

11. 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 is susceptible to accrual.

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 dues receivable and unearned revenues. Membership dues are recognized 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 estimated fair 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, Employee Benefits and Space Costs - Indirect costs, employee benefits and space costs are charged, as expended, to indirect, employee benefit and space 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 space costs is allocated based on the facility usage of each grant program. The percentages used in the indirect and employee benefit allocation process are approved by the Texas Department on Aging and Disability Services.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between programs. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

13. Use of 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 reported amounts 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.

14. 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 workers' compensation, liability insurance and property insurance. 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.

DETCOG purchases workers' compensation insurance coverage from the Deep East Texas Self Insurance Fund (Fund), a public entity risk pool, which is self sustaining through member contributions. The Fund reinsures to statutory limits through commercial companies for claims in excess of \$1,000,000. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves. DETCOG pays a quarterly premium to the Fund for its workers' compensation insurance coverage. By participating in the pool, DETCOG is not responsible for its own paid claims; consequently, risks associated with workers' compensation are passed to the pool. The members of the Fund have no known premium liabilities for workers' compensation coverage in excess of their contracted annual premiums. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund had adequate assets to cover more than 100% of all liabilities.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, \$500,000 per occurrence in excess of member deductibles for automobile physical damage coverage.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

DETCOG's annual budget is prepared based on estimated expenditures. 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.

B. Compliance and Accountability

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:

VIOLATION

None

Deficit Fund Balance or Fund Net Position of Individual Funds

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

FUND	DEFICIT AMOUNT	REMARKS
General Fund	\$ 85 568	Expenses exceeded revenues in prior periods

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Cash and Cash Equivalents

At September 30, DETCOG's carrying amount for cash deposits was \$1,989,301 and the bank balance was \$1,137,328. DETCOG's cash deposits at September 30, were entirely covered by FDIC insurance, by pledged collateral held by the pledging financial institution's agent bank in DETCOG's name. At September 30, 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.

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

Due From and To Other Funds

The grant fund owes funds to the general fund for grant operations that have not been refunded, this amount will be repaid within the next fiscal year.

Transfers From and To Other Funds

The general fund allocated indirect and space costs of \$1,385,636 to the grant fund during the year ended September 30.

C. Grants Receivable

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

	COMPLETED GRANTS RECEIVABLE	OPEN GRANTS RECEIVABLE	TOTAL
Disaster Recovery	\$ -	\$ 1 594 652	\$ 1 594 652
Area Agency on Aging	148 739	61 259	209 998
Regional Housing Authority	-	11 229	11 229
Emergency Communications	-	289 574	289 574
Homeland Security	7 783	62 698	70 481
Criminal Justice	-	34 714	34 714
Service to At Risk Youth	-	118 206	118 206
Retired and Senior Volunteer Program	-	11 579	11 579
Regional Services	-	27 455	27 455
Administration	-	16 336	16 336
TOTAL GRANTS RECEIVABLE	\$ 156 522	\$ 2 227 702	\$ 2 384 224

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Other Receivables

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

HUD fraud recovery	\$ 93 861
Landlords	55 976
Dues	10 761
Local entities	39 770
Employees	21
Other	4 398
	<u>204 787</u>
Less allowance for uncollectible	<u>(144 347)</u>
TOTAL OTHER RECEIVABLES	\$ <u>60 440</u>

E. Capital Assets

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

	<u>BALANCE</u> <u>09/30/2015</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>BALANCE</u> <u>09/30/2016</u>
Governmental Activities:				
Nondepreciable Assets:				
Land	\$ 14 000	\$ -	\$ -	\$ 14 000
TOTAL NONDEPRECIABLE ASSETS	<u>14 000</u>	<u>-</u>	<u>-</u>	<u>14 000</u>
Depreciable Assets:				
Building and leasehold improvements	253 718	-	-	253 718
Furniture, fixtures and equipment	217 202	-	-	217 202
TOTAL DEPRECIABLE ASSETS	<u>470 920</u>	<u>-</u>	<u>-</u>	<u>470 920</u>
Less accumulated depreciation	<u>(456 717)</u>	<u>(7 632)</u>	<u>-</u>	<u>(464 349)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>14 203</u>	<u>(7 632)</u>	<u>-</u>	<u>6 571</u>
TOTAL CAPITAL ASSETS	\$ <u>28 203</u>	\$ <u>(7 632)</u>	\$ <u>-</u>	\$ <u>20 571</u>

Depreciation expense for the year ended September 30, totaled \$7,632 and was charged to functions/programs of the government-wide statement of activities as follows:

Governmental Activities:	
Administration	\$ 7 632
TOTAL DEPRECIATION EXPENSE	\$ <u>7 632</u>

F. Unearned Revenue

The following is a summary of unearned revenue at September 30 for governmental funds:

<u>PROGRAM</u>	<u>TOTAL</u>
Disaster Recovery	\$ 191 268
Area Agency on Aging	24 429
Emergency Communications	428 473
Homeland Security	956
Criminal Justice	364
Service to At Risk Youth	730
Retired and Senior Volunteer Program	11 004
Regional Services	105 227
Social Services Program	118 334
Administration	186 988
TOTAL	\$ <u>1 067 773</u>

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

G. Deferred Inflows of Resources

Deferred inflows of resources at September 30, consisted of the following:

	AMOUNT
Regional Housing Authority:	
Unavailable revenue - Fraud recovery	\$ 5 490
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 5 490

H. Operating Leases

During the year, DETCOG leased office space and equipment under operating leases for varying lengths of time. Most 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, was as \$169,166 for office space and \$121,380 for equipment.

I. 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 the Executive Director's earnings and 7% for all other employees' earnings to the plan for the year ended September 30, 2016. 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 \$151,047, less forfeitures of \$23,891, were charged to the employee benefit cost pool for the year ended September 30, 2016. Employee contributions of \$44,388 and employee loan repayments of \$124,913 were paid for the year ended September 30, 2016.

J. Related Party Transactions

The previous Executive Director of DETCOG disclosed to DETCOG that he was a board member of numerous community organizations. There were no funds awarded to any of these related organizations for the year ended September 30, 2016.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

K. Subsequent Event

DETCOG underwent significant program audits and evaluations from the federal and state agencies that fund programs. These examinations did not identify any material errors or issues that resulted in refunds to the granting agencies.

Management has evaluated subsequent events through April 27, 2017, the date the financial statements were available to be issued.

L. 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, 2016 have not been completed. Based on prior experience, DETCOG management believes that DETCOG will not incur significant losses from possible grant disallowances.

In February 2014, the Federal Bureau of Investigation (FBI) conducted a search of DETCOG's premises in Jasper, Texas and seizure of certain records. DETCOG's previous Executive Director was indicted and then retired effective January 25, 2016. The possible outcome of the FBI's investigation and indictment of DETCOG's previous Executive Director cannot be presently determined. Accordingly, no provision for any liability that may result from these matters has been made in the financial statements.

M. Prior Period Adjustment

During the audit, we noted a balance in other receivables that was for legal fees incurred by DETCOG that the organization no longer believes will be repaid. A prior period adjustment for \$36,596 was recorded to remove a portion of this attributable to prior years.

SUPPLEMENTARY INFORMATION

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
COMBINING BALANCE SHEET - FINANCIAL DATA SCHEDULE - REAC
REGIONAL HOUSING AUTHORITY
September 30, 2016

REAC LINE NO.		HOUSING CHOICE VOUCHERS	FAMILY SELF- SUFFICIENCY PROGRAM	DISASTER HOUSING ASSISTANCE GRANT	DISASTER HOUSING ASSISTANCE PAYMENTS - IKE	TOTAL
ASSETS						
113	Cash - Other restricted	\$ 239 670	\$ -	\$ 192 675	\$ 520 305	\$ 952 650
115	Cash - Restricted for payment of current liabilities	187 731	-	-	-	187 731
121	Accounts receivable - PHA projects	4 398	-	-	-	4 398
122	Accounts receivable - HUD other	-	11 229	-	-	11 229
125	Accounts receivable - Miscellaneous	55 976	-	-	-	55 976
126.2	Allowance for doubtful accounts - Other	(55 122)	-	-	-	(55 122)
128	Fraud recovery	93 861	-	-	-	93 861
128.1	Allowance for doubtful accounts - Fraud	(89 225)	-	-	-	(89 225)
142	Prepaid items	8 517	-	-	-	8 517
144	Inter program due from	-	-	217 828	-	217 828
	TOTAL ASSETS	\$ 445 806	\$ 11 229	\$ 410 503	\$ 520 305	\$ 1 387 843
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE						
Liabilities:						
312	Accounts payable	\$ 36 546	\$ -	\$ -	\$ -	\$ 36 546
345	Other current liabilities	187 731	-	-	-	187 731
347	Inter program due to	206 599	11 229	-	-	217 828
300	TOTAL LIABILITIES	430 876	11 229	-	-	442 105
Deferred Inflows:						
400	Deferred inflows	5 490	-	-	-	5 490
Fund Balance:						
508.3	Nonspendable fund balances	8 517	-	-	-	8 517
509.3	Restricted fund balances	22 019	-	410 503	520 305	952 827
510.3	Unassigned fund balances balances	(21 096)	-	-	-	(21 096)
513	TOTAL FUND BALANCES	9 440	-	410 503	520 305	940 248
600	TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	\$ 445 806	\$ 11 229	\$ 410 503	\$ 520 305	\$ 1 387 843

See independent auditors' report.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - FINANCIAL DATA SCHEDULE - REAC
REGIONAL HOUSING AUTHORITY
September 30, 2016

REAC LINE NO.		HOUSING CHOICE VOUCHERS	FAMILY SELF- SUFFICIENCY PROGRAM	DISASTER HOUSING ASSISTANCE GRANT	DISASTER HOUSING ASSISTANCE PAYMENTS - IKE	TOTAL
Revenues:						
70600	HUD PHA operating grants	\$ 11 010 881	\$ 67 963	\$ -	\$ -	\$ 11 078 844
71400	Fraud recovery	14 202	-	-	-	14 202
71500	Other revenue	34 150	-	-	-	34 150
72000	Investment income - Restricted	754	-	-	-	754
70000	TOTAL REVENUES	<u>11 059 987</u>	<u>67 963</u>	<u>-</u>	<u>-</u>	<u>11 127 950</u>
Expenditures:						
91100	Administrative salaries	344 981	-	-	-	344 981
91200	Auditing fees	6 916	-	-	-	6 916
91500	Employee benefit contributions -					
	Administrative	133 681	-	-	-	133 681
91600	Office expenses	192 674	-	-	-	192 674
91700	Legal expense	650	-	-	-	650
91800	Travel	5 470	-	-	-	5 470
91810	Allocated overhead	153 055	-	-	-	153 055
91900	Other - Administrative	47 251	-	-	-	47 251
92100	Tenant services - Salaries	-	48 982	-	-	48 982
92300	Employee benefit contributions -					
	Tenant services	-	18 981	-	-	18 981
94200	Ordinary maintenance and					
	operations - Materials and					
	other	5 240	-	-	-	5 240
96140	All other insurance	1 136	-	-	-	1 136
96200	Other general expenses	53 892	-	-	-	53 892
97300	Housing assistance payments	9 844 299	-	-	-	9 844 299
97350	HAP portability - In	-	-	-	-	-
90000	TOTAL EXPENDITURES	<u>10 789 245</u>	<u>67 963</u>	<u>-</u>	<u>-</u>	<u>10 857 208</u>
	NET CHANGE IN FUND BALANCE	270 742	-	-	-	270 742
11030	Fund balance - Beginning	<u>(261 302)</u>	<u>-</u>	<u>410 503</u>	<u>520 305</u>	<u>669 506</u>
	FUND BALANCE - ENDING	<u>\$ 9 440</u>	<u>\$ -</u>	<u>\$ 410 503</u>	<u>\$ 520 305</u>	<u>\$ 940 248</u>

See independent auditors' report.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2016

	ORIGINAL	FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:				
Federal and state grants	\$ 28 733 418	\$ 24 948 515	\$ 25 379 830	\$ 431 315
Local grants	860 050	513 411	345 161	(168 250)
Membership dues	-	-	51 076	51 076
Sustaining local dues	-	-	6 900	6 900
Investment income	-	-	2 890	2 890
Miscellaneous income	10 000	15 000	49 566	34 566
Grant Matching Funds:				
DETCOG cash matching	157 892	79 572	79 206	(366)
Local non-cash matching	250 000	250 000	236 749	(13 251)
Subcontractor cash contributions	-	-	126 314	126 314
Subcontractor in-kind contributions	1 300 000	1 050 000	767 871	(282 129)
TOTAL REVENUES	31 311 360	26 856 498	27 045 563	189 065
Expenditures:				
Personnel	3 739 761	3 274 216	3 233 149	41 067
Staff travel	220 568	171 651	169 338	2 313
Contracted services	85 200	166 872	161 383	5 489
Equipment costs	1 380 278	1 425 013	1 434 513	(9 500)
Participant and subcontractor costs	24 335 551	20 174 929	19 289 951	884 978
Other costs	1 550 000	1 300 000	2 567 132	(1 267 132)
DETCOG cash matching	-	-	79 206	(79 206)
TOTAL EXPENDITURES	31 311 358	26 512 681	26 934 672	(421 991)
NET INCOME	2	343 817	110 891	(232 926)
Other Financing Sources:				
Indirect cost pool	-	-	56 310	56 310
TOTAL OTHER SOURCES	-	-	56 310	56 310
NET CHANGE IN FUND BALANCE	2	343 817	167 201	(176 616)
Fund balance - Beginning	519 541	519 541	519 541	-
Prior Period Adjustment	(36 596)	(36 596)	(36 596)	-
Fund balance - Beginning (restated)	482 945	482 945	482 945	-
FUND BALANCE - ENDING	\$ 482 947	\$ 826 762	\$ 650 146	\$ (176 616)

See independent auditors' report.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
SCHEDULE OF INDIRECT COSTS - BUDGET AND ACTUAL
For the Year Ended September 30, 2016

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
Salaries	\$ 378 053	\$ 323 422	\$ 328 282	\$ (4 860)
Benefits	146 496	125 326	127 210	(1 884)
Staff travel	35 620	15 000	9 328	5 672
Board travel	12 500	9 000	4 872	4 128
Contract services	16 500	20 000	21 392	(1 392)
Space costs	151 646	140 845	158 342	(17 497)
Equipment costs	-	-	2 945	(2 945)
Other Costs:				
Legal	10 000	26 000	24 219	1 781
Supplies	10 000	12 000	16 969	(4 969)
Postage	5 000	4 500	3 118	1 382
Printing and copying	4 000	1 500	(585)	2 085
Communications	24 800	24 800	12 796	12 004
Equipment lease and maintenance	1 500	1 500	-	1 500
Audit	48 000	60 992	60 993	(1)
Member relations	7 000	6 000	651	5 349
Dues and subscriptions	15 500	15 500	14 100	1 400
Insurance	7 500	10 000	9 231	769
Depreciation	1 500	1 500	7 632	(6 132)
Public notices	3 000	3 000	652	2 348
Publications	4 500	3 000	2 733	267
Rent	-	-	2 760	(2 760)
Staff development	3 000	3 000	8 101	(5 101)
Other	500	7 120	283	6 837
TOTAL INDIRECT COSTS	<u>\$ 886 615</u>	<u>\$ 814 005</u>	<u>\$ 816 024</u>	<u>\$ (2 019)</u>
Indirect Costs Allocation:				
Indirect costs charged to grants	\$ 846 641	\$ 830 341	\$ 832 360	\$ (2 019)
Indirect costs carryover	39 974	39 974	39 974	-
Indirect costs carried forward	-	(56 310)	(56 310)	-
TOTAL INDIRECT COSTS ALLOCATION	<u>\$ 886 615</u>	<u>\$ 814 005</u>	<u>\$ 816 024</u>	<u>\$ (2 019)</u>
Indirect Cost Rate October 1 - September 30:				
Salaries and benefits			<u>28.00%</u>	
Indirect and Administrative Costs as Percentage of Modified Direct Operations			<u>3.03%</u>	

See independent auditors' report.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
SCHEDULE OF EMPLOYEE BENEFITS - BUDGET AND ACTUAL
For the Year Ended September 30, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	VARIANCE
	<u>ORIGINAL</u>	<u>FINAL</u>		FAVORABLE (UNFAVORABLE)
Health and accident insurance	\$ 590 957	\$ 546 602	\$ 530 893	\$ 15 709
Long term disability and life insurance	31 166	31 166	29 284	1 882
Workers' compensation insurance	9 000	10 000	11 042	(1 042)
Payroll taxes (FICA and TWC)	182 995	192 525	183 515	9 010
Retirement	179 504	155 859	151 082	4 777
TOTAL EMPLOYEE BENEFITS	<u>\$ 993 622</u>	<u>\$ 936 152</u>	<u>\$ 905 816</u>	<u>\$ 30 336</u>
 Basis for Employee Benefits Allocation:				
Salaries at regular rate			\$ 2 330 195	
TOTAL SALARIES			<u>\$ 2 330 195</u>	
 Employee Benefit Allocation:				
Employee benefits at regular rate			\$ 902 953	
Employee benefit charges to grants			902 953	
Employee benefits carryover			120 370	
Employee benefits carried forward			(117 507)	
TOTAL EMPLOYEE BENEFITS			<u>\$ 905 816</u>	
Employee benefit regular rate			<u>38.75%</u>	
 Personnel:				
Salaries			\$ 2 209 827	
Employee benefits			<u>1 023 322</u>	
TOTAL PERSONNEL			<u>\$ 3 233 149</u>	

See independent auditors' report.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
GRANTOR AGENCIES/GRANT PROGRAMS
ABBREVIATION KEY
September 30, 2016

ABBREVIATION	FEDERAL
CDBG	Community Development Block Grant
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
	 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
	 OTHER
AAA	Area Agency on Aging
ADRC	Aging Disability Resource Center
CDBG	Community Development Block Grant
CTI	Community - Base Care Transition Program
DETRCDC	Deep East Texas Regional Certified Development Corporation
DHAP	Disaster Housing Assistance Payments
DVP	Disaster Voucher Program
FSS	Family Self Sufficiency Program
HCV	Housing Choice Vouchers
Housing	Regional Housing Authority
MOD	Method of Distribution
REAC	Real Estate Assessment Center
STAR	Service to At Risk Youth
TIRN	Texas Information and Referral Network
UCAP	Universal Child Abuse and Neglect Prevention

See independent auditors' report.

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
INTERNAL SCHEDULE OF REVENUES AND EXPENDITURES BY PROGRAM
For the Year Ended September 30, 2016

	<u>ADMINISTRATION</u>	<u>DISASTER RECOVERY</u>	<u>AREA AGENCY ON AGING</u>	<u>REGIONAL HOUSING AUTHORITY</u>
Revenues:				
Local revenue	\$ 170 837	\$ 36	\$ 1 368 131	\$ 49 105
Grant revenues	<u>-</u>	<u>6 733 399</u>	<u>2 378 342</u>	<u>11 078 845</u>
 TOTAL REVENUE	 <u>170 837</u>	 <u>6 733 435</u>	 <u>3 746 473</u>	 <u>11 127 950</u>
Expenditures:				
Personnel	515 626	287 161	665 695	546 624
Indirect costs	(799 188)	80 405	167 876	153 055
Staff travel	14 199	5 475	42 982	10 710
Contract services	127 958	-	-	28 580
Space costs	(467 579)	20 683	160 136	130 405
Equipment costs	2 946	-	-	4 074
Participant and subcontractor costs	3 659	6 305 539	1 661 744	9 862 449
Other costs and match	<u>859 622</u>	<u>34 172</u>	<u>1 048 040</u>	<u>53 348</u>
 TOTAL EXPENDITURES	 <u>257 243</u>	 <u>6 733 435</u>	 <u>3 746 473</u>	 <u>10 789 245</u>
 NET CARRYFORWARD (LOSS)	 <u>\$ (86 406)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 338 705</u>
 TOTAL DIRECT EXPENDITURES	 <u>\$ 1 524 010</u>	 <u>\$ 6 632 347</u>	 <u>\$ 3 418 461</u>	 <u>\$ 10 505 785</u>

See independent auditors' report.

EMERGENCY COMMUNICATIONS	HOMELAND SECURITY	CRIMINAL JUSTICE	SERVICE TO AT RISK YOUTH	RETIRED AND SENIOR VOLUNTEER PROGRAM	REGIONAL SERVICES	TOTAL
\$ 1 233	\$ 22	\$ 1	\$ 370	\$ 53 012	\$ 22 982	\$ 1 665 729
<u>3 953 692</u>	<u>202 520</u>	<u>159 385</u>	<u>663 982</u>	<u>127 986</u>	<u>81 682</u>	<u>25 379 833</u>
<u>3 954 925</u>	<u>202 542</u>	<u>159 386</u>	<u>664 352</u>	<u>180 998</u>	<u>104 664</u>	<u>27 045 562</u>
497 819	74 360	63 546	406 957	106 331	69 030	3 233 149
139 389	20 821	18 283	113 948	29 773	19 328	(56 310)
25 894	8 071	1 767	48 783	8 435	3 022	169 338
3 000	407	-	-	340	-	160 285
53 329	17 688	23 740	44 506	5 242	11 850	-
1 392 313	33 291	-	617	1 272	-	1 434 513
1 810 062	42 571	50 100	-	-	-	19 736 124
<u>33 119</u>	<u>5 333</u>	<u>1 950</u>	<u>49 541</u>	<u>29 605</u>	<u>1 434</u>	<u>2 116 164</u>
<u>3 954 925</u>	<u>202 542</u>	<u>159 386</u>	<u>664 352</u>	<u>180 998</u>	<u>104 664</u>	<u>26 793 263</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>252 299</u>
\$ <u>3 762 208</u>	\$ <u>164 032</u>	\$ <u>117 363</u>	\$ <u>505 898</u>	\$ <u>145 983</u>	\$ <u>73 486</u>	\$ <u>26 849 573</u>

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
SCHEDULE OF INSURANCE COVERAGE
(UNAUDITED)
September 30, 2016

INSURER	RISK COVERED	PERIOD COVERED	AMOUNT OF INSURANCE
Texas Municipal League	General Liability	10/01/15 to 10/01/16	\$1,000,000 Deductible \$0
Texas Municipal League	Errors and Omissions	10/01/15 to 10/01/16	\$1,000,000 Deductible \$1,000
Texas Municipal League	Auto Liability	10/01/15 to 10/01/16	\$500,000
Texas Municipal League	Auto Physical Damage	10/01/15 to 10/01/16	Actual cash value Deductible \$250
Texas Municipal League	Real and Personal Property	10/01/15 to 10/01/16	\$6,190,845 Deductible \$250
The Fidelity and Deposit Company	Commercial Crime Policy Employee Theft	09/01/15 to 08/31/16 09/01/16 to 08/31/17	\$500,000 Deductible \$5,000
Deep East Texas Self Insurance Fund	Workers' Compensation	07/01/15 to 06/30/16 07/01/16 to 06/30/17	Statutory

See independent auditors' report.

COMPLIANCE SECTION

INDEPENDENT AUDITORS' 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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major funds of Deep East Texas Council of Governments and Economic Development District (DETCOG) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise DETCOG's basic financial statements, and have issued our report thereon dated April 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DETCOG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DETCOG's internal control. Accordingly, we do not express an opinion on the effectiveness of DETCOG's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of DETCOG's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DETCOG's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DETCOG's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lufkin, Texas
April 27, 2017


CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on Compliance for Each Major Federal and State Program

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 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, 2016. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of DETCOG's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United State of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), and the *State of Texas Single Audit Circular*. Those standards, Uniform Guidance, 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 on compliance for each major federal and state program. However, our audit does not provide a legal determination of DETCOG's compliance.

Opinion on Each Major Federal and State Program

In our opinion, Deep East Texas Council of Governments and Economic Development District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of DETCOG is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered DETCOG's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with Uniform Guidance 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Lufkin, Texas
April 27, 2017


CERTIFIED PUBLIC ACCOUNTANTS

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2016

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/PASS- THROUGH GRANTOR'S NUMBER	EXPENDITURES
FEDERAL AWARDS				
<u>U.S. Department of Commerce</u>				
Economic Development - Support for Planning Organizations:				
903-16	Direct	11.302	08-83-05029	\$ 15 000
903-17	Direct	11.302	08-83-05029	45 000
	TOTAL FOR CFDA NUMBER 11.302			<u>60 000</u>
903-16-952	Economic Adjustment Assistance	11.307	08-79-05077	2 144
	TOTAL U.S. DEPARTMENT OF COMMERCE			<u>62 144</u>
<u>U.S. Department of Housing and Urban Development</u>				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii *:				
126-13	Passed through Texas General Land Office	14.228	12-476-000-6641	6 709 266
135-13	Passed through Texas General Land Office	14.228	13-199-000-7349	24 134
905-16	Passed through Texas Department of Agriculture	14.228	C715205	5 744
905-17	Passed through Texas Department of Agriculture	14.228	C716205	199
	TOTAL FOR CFDA NUMBER 14.228			<u>6 739 343</u>
Section 8 Housing Choice Vouchers *:				
405	Direct	14.871	TX512VO	9 791 360
406/416	Direct	14.871	TX512AF	1 219 521
	TOTAL FOR CFDA NUMBER 14.871			<u>11 010 881</u>
Family Self-Sufficiency Program:				
406 - 408	Direct	14.896	TX512FSH657A014	27 109
408	Direct	14.896	TX512FSH657A015	40 854
	TOTAL FOR CFDA NUMBER 14.896			<u>67 963</u>
	TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>17 818 187</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:				
360-16	Passed through Texas Department on Aging and Disability Services	93.041	539-16-0011-00001	5 508
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals:				
360-16	Passed through Texas Department on Aging and Disability Services	93.042	539-16-0011-00001	24 616
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services:				
360-16	Passed through Texas Department on Aging and Disability Services	93.043	539-16-0011-00001	24 273
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers *:				
Various	Passed through Texas Department on Aging and Disability Services	93.044	539-16-0011-00001	572 352
Special Programs for the Aging - Title III, Part C - Nutrition Services *:				
Various	Passed through Texas Department on Aging and Disability Services	93.045	539-16-0011-00001	790 349
National Family Caregiver Support, Title III, Part E:				
Various	Passed through Texas Department on Aging and Disability Services	93.052	539-16-0011-00001	193 185

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, 2016

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS- THROUGH GRANTOR'S NUMBER	EXPENDITURES
370-16	Nutrition Services Incentive Program *: Passed through Texas Department on Aging and Disability Services	93.053	539-16-0011-00001	177 018
360-16	Medicare Enrollment Assistance Program: Passed through Texas Department on Aging and Disability Services	93.071	539-16-0011-00001	21 821
319-16	Passed through South East Texas Planning Commission	93.071	539-14-0475-00005	5 701
	TOTAL FOR CFDA NUMBER 93.071			<u>27 522</u>
319-16	Lifespan Respite Care Program: Passed through South East Texas Planning Commission	93.072	539-14-0475-00005	451
360-16	State Health Insurance Assistance Program: Passed through Texas Department on Aging and Disability Services	93.324	539-16-0011-00001	104 564
360-16	Money Follows the Person Rebalancing Demonstration: Passed through Texas Department on Aging and Disability Services	93.791	539-16-0011-00001	8 399
319-16	Passed through South East Texas Planning Commission	93.791	539-14-0475-00005	19 578
319-17	Passed through South East Texas Planning Commission	93.791	539-14-0475-00005	2 057
	TOTAL FOR CFDA NUMBER 93.791			<u>30 034</u>
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1 949 872</u>
	<u>Corporation for National and Community Service</u>			
	Retired and Senior Volunteer Program:			
801-15	Direct	94.002	14SRWTX011	27 444
801-16	Direct	94.002	14SRWTX011	52 700
802-16/ 802-17	Passed through Texas Department on Aging and Disability Services	94.002	15SRWTX011	47 841
	TOTAL FOR CFDA NUMBER 94.002			<u>127 985</u>
	TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>127 985</u>
	<u>U.S. Department of Homeland Security</u>			
	Homeland Security Grant Program *:			
594-15	Passed through Texas Department of Public Safety - Division of Homeland Security	97.067	EMW-2014-SS-00029	42 384
Various	Passed through Texas Department of Public Safety - Division of Homeland Security	97.067	HS-2958401	137 640
	TOTAL FOR CFDA NUMBER 97.067			<u>180 024</u>
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>180 024</u>
	<u>U.S. Department of Transportation</u>			
	Regionally Coordinated Transportation Planning Grant:			
913-16	Passed through Texas Department of Transportation	20.515	512XXF7044	4 660
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>4 660</u>
	TOTAL FEDERAL AWARDS			<u>20 142 872</u>

* Indicates clustered program under OMB Compliance Supplement

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
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SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED
For the Year Ended September 30, 2016

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS- THROUGH GRANTOR'S NUMBER	EXPENDITURES
STATE AWARDS				
<u>Texas Commission on State Emergency Communications</u>				
9-1-1 Emergency Services:				
501-15	Direct		DETCOG	1 755 569
501-16	Direct		DETCOG	1 781 853
501-17	Direct		DETCOG	416 270
	TOTAL 9-1-1 EMERGENCY SERVICES			<u>3 953 692</u>
	TOTAL TEXAS COMMISSION ON STATE EMERGENCY COMMUNICATIONS			<u>3 953 692</u>
<u>Texas Commission on Environmental Quality</u>				
Regional Solid Waste Grants Program:				
906-16/ 906-17	Direct		582-16-60651	8 934
	TOTAL REGIONAL SOLID WASTE GRANTS PROGRAM			<u>8 934</u>
	TOTAL TEXAS COMMISSION ON ENVIRONMENTAL QUALITY			<u>8 934</u>
<u>Texas Department on Aging and Disability Services</u>				
State General Revenue:				
Various 319-16/ 319-17	Direct		539-16-0011-00001	147 749
	Passed through South East Texas Planning Commission		539-14-0475-00005	83 242
	TOTAL TEXAS DEPARTMENT ON AGING AND DISABILITY SERVICES			<u>230 991</u>
<u>Texas Department of Family and Protective Services</u>				
Services to At Risk Youth - State General Revenue:				
705-16 705-17	Direct		24028206	57 059
	Direct		24028206	606 021
	TOTAL SERVICES TO AT RISK YOUTH - STATE GENERAL REVENUE			<u>663 080</u>
Services to At Risk Youth - Children's Trust Fund:				
705-16 705-17	Direct		24028206	236
	Direct		24028206	666
	TOTAL SERVICES TO AT RISK YOUTH - CHILDREN'S TRUST FUND			<u>902</u>
	TOTAL TEXAS DEPARTMENT OF FAMILY AND PROTECTIVE SERVICES			<u>663 982</u>
<u>Texas Health And Human Services Commission</u>				
Texas I & R Network (Child Care I & R):				
325-16	Direct		HHSC 529-16-0006-00005	11 942
325-17	Direct		HHSC 529-16-0006-00005	3 196
325-16 325-17	Direct		HHSC 529-16-0006-00005	171 255
	Direct		529-16-0006-00005	11 083
	TOTAL TEXAS HEALTH AND HUMAN SERVICES COMMISSION			<u>197 476</u>

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
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SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED
For the Year Ended September 30, 2016

G/L NUMBER	GRANT TITLE	CFDA NUMBER	GRANT NUMBER/ PASS- THROUGH GRANTOR'S NUMBER	EXPENDITURES
	<u>Texas Office Of the Governor</u>			
	Homeland Security COG Contract:			
594-16	Direct		30061036	19 760
594-17	Direct		30070155	2 735
	Purchase of Juvenile Justice Alternatives:			
609-16	Direct		SF-14339-17	24 990
	Regional Criminal Justice Coordination:			
601-15	Direct		30061088	38 653
601-16	Direct		30071042	4 885
	TOTAL REGIONAL CRIMINAL JUSTICE COORDINATION			91 023
	Regional Law Enforcement Training:			
608-16	Direct		SF-14289-14	90 857
	TOTAL TEXAS OFFICE OF THE GOVERNOR			181 880
	TOTAL STATE AWARDS			5 236 955
	TOTAL FEDERAL AND STATE AWARDS			\$ 25 379 827

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, 2016

1. General

The Schedule of Expenditures of Federal and State Awards (SEFSA) 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 SEFSA.

2. Basis of Accounting

The SEFSA 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 statement in the General Fund. Total federal and state awards per the accompanying SEFSA 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 Uniform Guidance 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
For the Year Ended September 30, 2016

A. Summary of the Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

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:

Type of auditor's report on compliance issued: Unmodified

Internal control over major programs:

Material weakness(es) identified: Yes No

Significant deficiencies identified that are Not considered material weaknesses? Yes No

Dollar threshold used for Federal Type A Program? \$750,000

Dollar threshold used for State Type A Program? \$300,000

Auditee qualified as low risk auditee? Yes No

Identification of Major Programs:

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL OR STATE PROGRAM</u>
Federal: 14.871	Section 8 Housing Vouchers
State: N/A	9-1-1 Emergency Services

B. Financial Statement Findings

None

C. Federal and State Findings and Questioned Costs

None

DEEP EAST TEXAS COUNCIL OF GOVERNMENTS
AND ECONOMIC DEVELOPMENT DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2016

There were no prior year audit findings relative to federal and state awards.