



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

COMPREHENSIVE ANNUAL FINANCIAL REPORT

of the

EAST TEXAS COUNCIL OF GOVERNMENTS

For the Year Ended
September 30, 2006

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Member of the Government Finance Officer's Association of the United States and
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EAST TEXAS COUNCIL OF GOVERNMENTS

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INTRODUCTORY SECTION

February 9, 2007

Mayor Carson Joines
and the Executive Committee
East Texas Council of Governments
Kilgore, TX

Dear Ladies and Gentlemen:

The comprehensive annual financial report for the East Texas Council of Governments (ETCOG) for the fiscal year ended September 30, 2006, is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with ETCOG's management. We believe the data, as presented, is accurate in all material respects, that it properly reflects the financial position and the results of operations of the Council through the measurement of financial activity of its various funds, and that all disclosures have been made to enable the reader to acquire the maximum understanding of financial affairs concerning ETCOG. These financial statements are presented annually in compliance with Office of Management and Budget's Circular A-133, the Single Audit Act of 1984, as amended, and the Council's Bylaws.

REPORT FORMAT

ETCOG's financial statements have been audited by Pattillo, Brown & Hill, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of ETCOG for the fiscal year ended September 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that ETCOG's financial statements for the fiscal year ended September 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of ETCOG was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Single Audit Section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. ETCOG's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE COUNCIL

In June 1970, a regional planning commission known as the East Texas Council of Governments was created under authority of State Law now recodified as Local Government Code, Chapter 391. The Council is a voluntary membership organization of local governments in a 14 county region of East Texas. The organization is one of 24 regional councils in Texas. Local governments created ETCOG to develop a systematic method of evaluating and addressing common concerns which affect several governmental jurisdictions. Cooperative efforts to resolve regional issues such as employment, water and air pollution, crime, emergency services, drainage and flooding, transportation, care of the elderly, and waste disposal have received collective action through ETCOG. The Council continues to be dedicated to improving the quality of life of the citizens of the region through cooperative efforts to enhance the physical, social, and economic environment.

ETCOG is governed by a Board of 185 delegates from member local governments. The Board of Directors is composed of locally elected officials, members representing county governments, cities, school districts and soil and water conservation districts. The Board of Directors determines policy, while the Executive Committee elected by the Board of Directors is responsible for carrying out that policy. ETCOG's Executive Committee is comprised of local elected officials who meet monthly to provide specific guidance to the Council. During 2006, ETCOG's membership was comprised of the 14 county governments, 73 cities, 27 school districts, and 14 special purpose districts, including all major general-purpose local governments in the region. According to 2005 estimates from the Texas State Data Center, these member governments represented approximately 757,082 citizens and covered an area of 9,722 square miles.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the East Texas Council of Governments operates.

LOCAL ECONOMY

Located just 90 miles east of the Dallas-Fort Worth Metroplex, the 14-county region that comprises East Texas is uniquely positioned for economic growth. The East Texas Workforce Development Area consists of the following counties: Anderson, Camp, Cherokee, Gregg, Harrison, Henderson, Marion, Panola, Rains, Rusk, Smith, Upshur, Van Zandt and Wood. The 2000 census data shows a population of approximately 745,180 persons in the 14 counties covering approximately 10,000 square miles. While 10 of the 14 counties (covering 7,276 square miles) are rural, the region includes two standard metropolitan statistical areas – Tyler (Smith County) and Longview (Gregg County). The Tyler MSA has a population of 174,706 and the Longview MSA has a population of 194,042.

The population density for the Workforce Development Area is 77.87 persons per square mile, which is much more concentrated than the western areas of the State. (In comparison, the population density of the Panhandle of Texas in rural counties is about 10 persons per square mile.) According to a report by the State Comptrollers Office, “The population of the East Texas region is large enough to create a demand for a wide variety of services and scattered enough to make delivery in a single location problematic.”

Institutionally, East Texas is characterized by local autonomy with continuously increasing economic linkages. All of the counties are affected by the “Interstate Highway 20 Corridor,” which links the East Texas region with Dallas and Shreveport, which are in turn linked with Austin, San Antonio and Houston. There are 14 counties, and 81 cities, 12 of which have populations of 5,000 or more. Tyler and Longview are the economic centers of the region. In particular, Tyler is the leading population center of the region and a retail/marketing hub.

The Texas economy and the economy of East Texas are closely tied to that of the U. S. as a whole. In fact, the national economic outlook has a strong bearing on both local and Texas forecasts. Given the number of new and emerging consumer markets around the world, American business is increasingly looking for moneymaking opportunities outside of the United States. With this increased amount of world trade, Texas and East Texas are becoming more dependent on the global economy for much of its prosperity.

The East Texas Workforce Development Area is located in the eastern part of the state. While oil and gas production, manufacturing, lumber/agribusiness, and government remain important, the East Texas economy is becoming more like the state and national economies, whose growth is driven by the services industries, which include low skill, low-wage counter help type jobs, along with high skill, high wage jobs in the office oriented managerial, sales and personal services occupations. In 2002, the East Texas region total employment for all industries was 319,550, with projected growth to 375,750 by the year 2012. That is an expected increase of 56,200, or a 17.59% increase in employment.

LONG-TERM FINANCIAL PLANNING

Accounting System and Budgetary Control. In developing and evaluating ETCOG's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss and that reliable financial records are maintained. We believe that adequate precautions have been taken, within cost limitations, to safeguard assets and provide reasonable assurance of proper recording of financial transactions within the Council.

As a recipient of federal and state assistance, ETCOG also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. The internal control structure is subject to periodic evaluation by management, federal and state agencies and independent auditors.

The Board of Directors approves a financial plan for revenues and expenditures in all funds. An annual financial plan is adopted for the Special Revenue Funds in September for the next year. Financial plans for the Special Revenue Funds are made on a project (grant) basis, often spanning more than one year. Appropriations for all projects in the Special Revenue Funds lapse at the end of a contract period, which may not coincide with the fiscal year end of ETCOG. ETCOG recognizes that the financial plan must be flexible enough to adjust for revenues which do not materialize and capitalize on unforeseen opportunities as they occur. Financial plans for the Special Revenue Funds are established in accordance with the grant awards received. Amendments to the financial plan are presented to the Board of Directors in their semi-annual meeting. Control of the financial plan is maintained 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 financial plan for the General Fund is prepared on the modified accrual basis, except that expenditures also include amounts for depreciation on general fixed assets acquired with General Fund resources and for changes in the liability for accrued vacation leave. The financial plan for the Special Revenue Funds is prepared on the same basis as the plan for the General Fund.

As stated in the Management's Discussion and Analysis, the financial plan for ETCOG is not considered a legally adopted budget. Therefore, comparative budget and actual results are not presented.

Management is attempting to increase membership dues to promote long-term stability. Since ETCOG is federally and state funded, long-term financial planning is not a viable option.

Risk Management. ETCOG 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. ETCOG maintains workers' compensation and other risks of loss coverage through the Texas Municipal League Intergovernmental Risk Pool, which is a public entity risk pool. The pool is self-sustaining through member premiums and obtains reinsurance through commercial insurance companies for claims in excess of a specified dollar amount. ETCOG management believes such coverage is sufficient to preclude any significant uninsured losses to ETCOG.

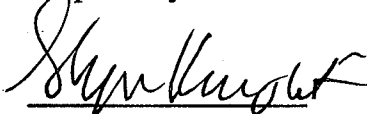
Cash Management Policies and Practices. ETCOG's investment policy is to minimize credit and market risks while maintaining a competitive yield on its investments. The Council's deposits are either insured by federal depository insurance or collateralized. Cash temporarily idle during the year was invested in certificates of deposit and the Texas Local Government Investment Pool (TexPool). The Council earned interest revenue of \$169,750 on its investments for the year ended September 30, 2006.

Awards and Acknowledgements. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the East Texas Council of Governments for its comprehensive annual financial report for the fiscal year ended September 30, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

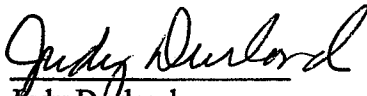
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This report could not have been accomplished without the dedication and efficiency of the ETCOG's Financial, Administrative, and Program Management Staff. Special acknowledgement should also be given to ETCOG's independent auditors, Pattillo, Brown, and Hill, L.L.P, whose expertise greatly assisted in the completion of this report. Finally, we would like to thank the members of the Executive Committee for their interest and support in planning and conducting ETCOG's financial operations in a responsible and progressive manner.

Respectfully submitted.



Glynn Knight
Executive Director



Judy Durland
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

East Texas
Council of Governments

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

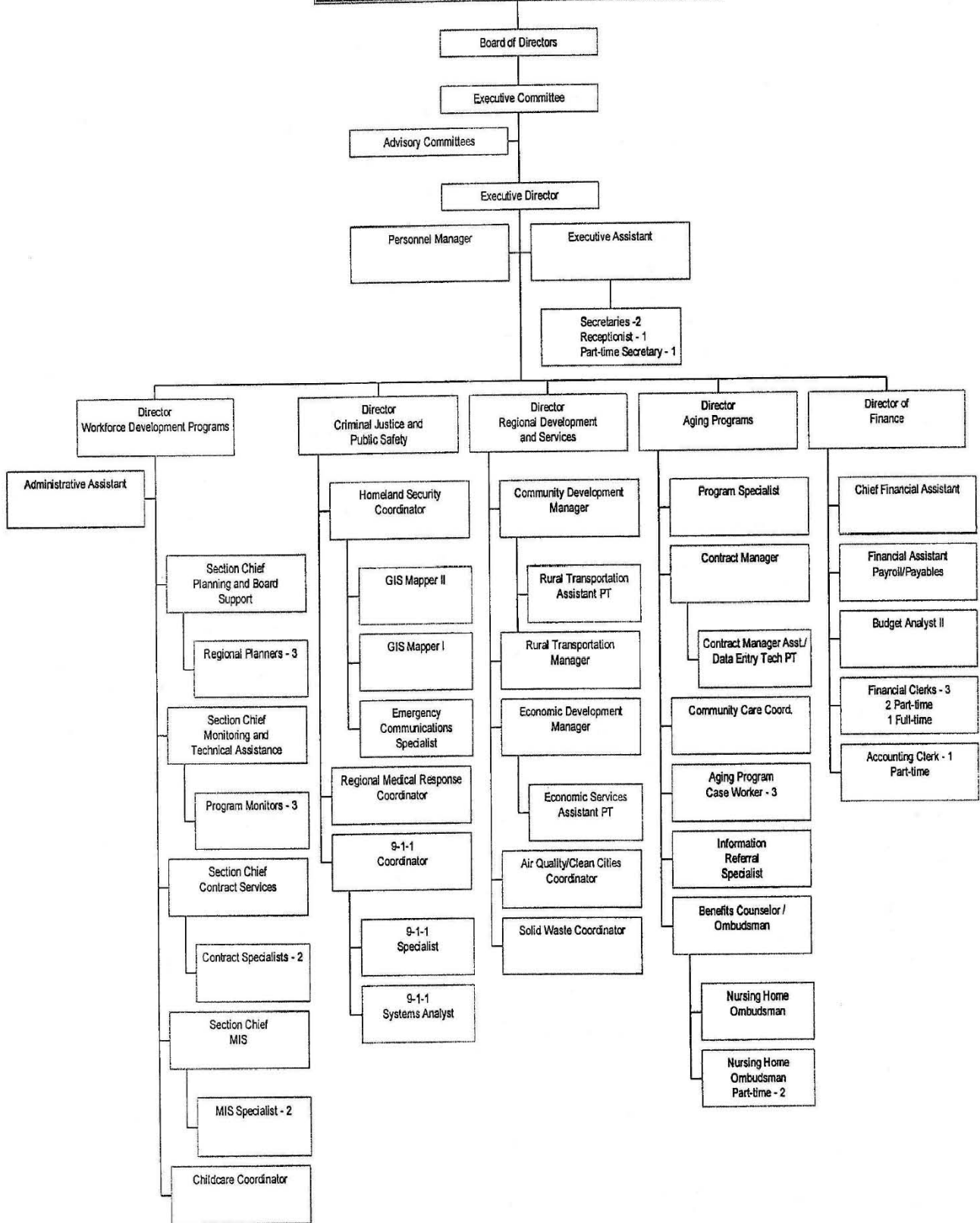
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

ETCOG Staff serves as the administrative arm for the East Texas Regional Review Committee, CEO Board of Directors, East Texas Workforce Development Board, the East Texas Regional Development Company, and the East Texas Economic Development District Board of Directors



EAST TEXAS COUNCIL OF GOVERNMENTS

PRINCIPAL OFFICIALS

**OFFICERS OF THE EXECUTIVE COMMITTEE
2006**

Jerry West
Chairman – Commissioner
Henderson County

Carson Joines
1st Vice-Chairman – Mayor
City of Carthage

Kevin Pierce
2nd Vice-Chairman – Commissioner
Cherokee County

John Paul Tallent
3rd Vice-Chairman – Mayor
City of Gladewater

George Wilkins
Secretary – Treasurer
Upshur – Gregg Counties – Soil & Water Conservation District #417

ADMINISTRATIVE STAFF

Executive Director	Glynn Knight
Director of Workforce Development Programs	Wendell Holcombe
Director of Area Agency on Aging	Claude Andrews
Director of Finance	Judy Durland
Director of Criminal Justice & Public Planning	Angela Norton
Director of Regional Development & Services	Mark Sweeney

EAST TEXAS COUNCIL OF GOVERNMENTS

MEMBER GOVERNMENTS

SEPTEMBER 30, 2006

COUNTIES

Anderson
Camp
Cherokee
Gregg
Harrison
Henderson
Marion
Panola
Rains
Rusk
Smith
Upshur
Van Zandt
Wood

CITIES

Alba
Alto
Arp
Athens
Beckville
Big Sandy
Brownsboro
Bullard
Caney City
Canton
Carthage
Chandler
Clarksville City
Coffee City
East Mountain
East Tawakoni
Easton
Edgewood
Elkhart
Emory
Eustace
Frankston

CITIES: (Continued)

Fruitvale
Gallatin
Gilmer
Gladewater
Grand Saline
Gun Barrel City
Hallsville
Hawkins
Henderson
Jacksonville
Jefferson
Kilgore
Lakeport
Lindale
Log Cabin
Longview
Mabank
Malakoff
Marshall
Mineola
Mt. Enterprise
Murchison
New London
New Summerfield
Noonday
Ore City
Overton
Palestine
Payne Springs
Pittsburg
Point
Quitman
Reklaw
Rusk
Seven Points
Star Harbor
Tatum
Tool
Trinidad

(continued)

EAST TEXAS COUNCIL OF GOVERNMENTS

**MEMBER GOVERNMENTS
(Continued)
SEPTEMBER 30, 2006**

CITIES: (Continued)

Troup
Tyler
Van
Warren City
Waskom
Wells
Whitehouse
White Oak
Wills Point
Winnsboro
Winona
Yantis

INDEPENDENT SCHOOL DISTRICTS: (Continued)

Neches ISD
New Diana ISD
New Summerfield ISD
Ore City ISD
Overton ISD
Rains ISD
Slocum ISD
Tatum ISD
Troup ISD
Westwood ISD
Yantis ISD

INDEPENDENT SCHOOL DISTRICTS

Alto ISD
Athens ISD
Big Sandy ISD
Carlisle ISD
Carthage ISD
Chapel Hill ISD
Frankston ISD
Gilmer ISD
Gladewater ISD
Grand Saline ISD
Harmony ISD
Henderson ISD
Jefferson ISD
Laneville ISD
La Poynor ISD
Longview ISD
Mt. Enterprise ISD

SPECIAL PURPOSE DISTRICTS

Cherokee County SWCD #427
Harrison County SWCD #412
Upshur-Gregg SWCD #417
Wood County SWCD #444
East Texas Cedar Creek Fresh Water Supply District
9-1-1 Network of East Texas
Trinity Valley Community College
Kilgore College
Tyler Junior College
Panola College

RIVER AUTHORITIES

Neches and Trinity Valleys Groundwater Conservation
District
Upper Neches River Municipal Water Authority
Sabine River Authority
Trinity River Authority

FINANCIAL SECTION

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 2007, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 13 through 18 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The introductory section, combining nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Pattillo, Brown & Hill, L.L.P.

February 9, 2007

**BASIC
FINANCIAL STATEMENTS**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Governor's Office of Criminal Justice Fund – This fund is used to account for federal and state grants awarded to East Texas Council of Governments by the State of Texas Governor's Office: Criminal Justice Division.

Texas Department of Transportation Fund – This fund is used to account for state grants awarded to East Texas Council of Governments by the Texas Department on Aging.

Texas Department of Health Fund – This fund is used to account for state grants awarded to East Texas Council of Governments by the Texas Department of Health.

Texas Department of Human Services Fund – This fund is used to account for state funds awarded to East Texas Council of Governments by the Texas Department of Human Services.

Texas Commission on Environmental Quality Fund – This fund is used to account for state grants awarded to East Texas Council of Governments by the Texas Commission on Environmental Quality.

Texas Health and Human Services Commission Fund – This fund is used to account for federal grants awarded to East Texas Council of Governments by the Texas Health and Human Services Commission.

Economic Development Administration Fund – This fund is used to account for federal grants awarded to East Texas Council of Governments by the Economic Development Administration.

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

U. S. Department of Homeland Security Fund – This fund is used to account for federal grants awarded to East Texas Council of Governments by the U. S. Department of Homeland Security.

Texas Department of State Health Services Fund – This fund is used to account for federal grants awarded to East Texas Council of Governments by the Texas Department of State Health Services.

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

Chapman Revolving Loan Fund – This fund is used to account for the Chapman Revolving Loan program.

Miscellaneous Grants and Contracts Fund – This fund is used to account for various local grants awarded to the East Texas Council of Governments.

SUPPLEMENTAL SCHEDULES

COMBINING STATEMENTS