

**COMMUNITY SERVICES OF
NORTHEAST TEXAS, INC.**

Linden, Texas

Financial Statements and
Independent Auditors' Report with
Supplemental Information and
Federal Compliance Section

For the Year Ended September 30, 2012

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.
Linden, Texas

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-13
Supplemental Information: Combining Schedule of Activities	14-16
Federal Compliance Section: Schedule of Expenditures of Federal Awards	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-19
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in accordance with OMB Circular A-133	20-21
Schedule of Findings and Questioned Costs	22-23
Summary Schedule of Prior Audit Findings	24
Corrective Action Plan	25

JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Services of Northeast Texas, Inc.
Linden, Texas

We have audited the accompanying statement of financial position of Community Services of Northeast Texas, Inc. as of September 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Services of Northeast Texas, Inc. as of September 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2013, on our consideration of Community Services of Northeast Texas, Inc.'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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedule of activities on pages 14 to 16 are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal 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 Non-Profit Organizations*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

May 9, 2013
Chanute, Kansas

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.

Linden, Texas

Statement of Financial Position

September 30, 2012

ASSETS

Current Assets:	
Cash	\$ 222,053.57
Receivables, Net	202,455.47
Prepaid Expense	37,131.70
Total Current Assets	<u>461,640.74</u>
Non-Current Assets:	
Capital Assets, Net	<u>449,044.30</u>
 TOTAL ASSETS	 <u>\$ 910,685.04</u>

LIABILITIES AND NET ASSETS

Liabilities	
Current Liabilities:	
Accounts Payable	\$ 346,694.45
Line of Credit	10,350.00
Accrued Salary and Fringe	63,476.30
Accrued Annual Leave	63,774.51
Refundable Grant Advances	24,984.30
Current Maturities of Notes Payable	22,297.65
Total Current Liabilities	<u>531,577.21</u>
Long-Term Liabilities	
Notes Payable	42,998.22
Less: Current Maturities of Notes Payable	<u>(22,297.65)</u>
Total Long-Term Liabilities	<u>20,700.57</u>
 TOTAL LIABILITIES	 <u>552,277.78</u>
Net Assets:	
Unrestricted	346,932.82
Temporarily Restricted	<u>11,474.44</u>
 TOTAL NET ASSETS	 <u>358,407.26</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 910,685.04</u>

The accompanying notes are an integral part of the financial statements.

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.

Linden, Texas

Statement of Activities

For the Year Ended September 30, 2012

CHANGES IN NET ASSETS

Unrestricted Net Assets	
Revenues and Gains	
Federal Grant Income	\$ 6,692,565.91
Donations	19,756.52
In-Kind Donations	758,606.85
Miscellaneous Revenue	1,570.18
Gain/(Loss) on Sale of Assets	3,232.28
Total Revenue and Gains	<u>7,475,731.74</u>
Net Assets Released From Restrictions	
through Satisfaction of Program Restrictions	<u>11,561.19</u>
Total Revenues, Gains and Other Support	7,487,292.93
Expenses	
Program Services	
Early Childhood Development	3,980,640.38
Elderly and Aging Services	1,341,526.77
Community Services	184,053.69
Emergency Assistance	1,259,304.93
Supporting Activities	
Management and General	920,210.05
Fundraising	2,163.42
Total Expenses	<u>7,687,899.24</u>
Increase (Decrease) in Unrestricted Net Assets	(200,606.31)
Temporarily Restricted Net Assets	
Donations	10,724.59
Miscellaneous Revenue	896.00
Net Assets Released From Restrictions	
Through Satisfaction of Program Restrictions	<u>(11,561.19)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>59.40</u>
Net Increase(Decrease) In Net Assets	(200,546.91)
NET ASSETS, September 30, 2011	<u>558,954.17</u>
NET ASSETS, September 30, 2012	<u>\$ 358,407.26</u>

The accompanying notes are an integral part of the financial statements.

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.

Linden, Texas

Statement of Functional Expenses

For the Year Ended September 30, 2012

Expenses	Program Services				Total Program Services
	Early Childhood Development	Elderly and Aging Services	Community Services	Emergency Assistance	
Salaries	\$ 2,179,812.97	\$ 264,061.31	\$ 96,535.22	\$ 60,693.37	\$ 2,601,102.87
Payroll Taxes	187,418.32	25,289.31	8,880.05	5,340.49	226,928.17
Fringe Benefits	277,952.12	52,363.48	11,113.38	5,012.03	346,441.01
Supplies	85,637.44	26,605.73	4,106.02	2,470.58	118,819.77
Dues and Subscriptions	63.15	141.30	1.55	488.73	694.73
Equipment	24,189.80	10,810.36	5,797.71	1,023.58	41,821.45
Meetings	1,906.03	53.28	318.32	102.16	2,379.79
Insurance	12,119.64	2,192.66	2,067.75	-	16,380.05
Legal	62.50	-	-	-	62.50
Memberships	1,200.00	-	625.00	-	1,825.00
Employee Costs	6,192.99	1,189.46	344.55	1,047.84	8,774.84
Volunteer Expense	573.16	132.00	851.72	13.67	1,570.55
Postage and Shipping	3,984.09	153.27	163.23	82.99	4,383.58
Printing and Advertising	1,872.73	192.47	221.14	191.15	2,477.49
Space	635,306.02	4,800.00	11,774.00	2,728.00	654,608.02
Repairs and Maintenance	68,447.36	14,759.61	354.24	38.69	83,599.90
Software Support and Maintenance	8,163.98	-	4,146.26	6,964.99	19,275.23
Telephone	29,515.94	6,901.93	7,843.27	1,901.55	46,162.69
Training and Technical Assistance	28,646.35	-	-	-	28,646.35
Travel	66,770.43	2,323.54	1,559.51	279.46	70,932.94
Utilities	64,521.19	33,545.05	1,227.85	687.04	99,981.13
Vehicle	70,741.21	171,882.30	6,436.04	1,158.07	250,217.62
Utility Assistance	-	-	-	1,163,222.11	1,163,222.11
Food	155,127.62	717,042.39	11,004.88	-	883,174.89
Parent Activities	724.56	-	-	-	724.56
Emergency Assistance	-	-	-	5,696.53	5,696.53
Other	6,265.91	852.30	50.00	161.90	7,330.11
Depreciation	63,424.87	6,235.02	8,632.00	-	78,291.89
Total Expenses	\$ 3,980,640.38	\$ 1,341,526.77	\$ 184,053.69	\$ 1,259,304.93	\$ 6,765,525.77

Expenses	Supporting Activities		Total Organization Services
	Management and General	Fundraising	
Salaries	\$ 580,253.72	\$ 1,364.18	\$ 3,182,720.77
Payroll Taxes	48,502.94	114.03	275,545.14
Fringe Benefits	48,213.40	113.35	394,767.76
Accounting and Audit	42,857.85	100.76	42,958.61
Supplies	13,346.26	31.38	132,197.41
Dues and Subscriptions	2,703.85	6.36	3,404.94
Equipment	16,739.42	39.35	58,600.22
Meetings	102.68	0.24	2,482.71
Insurance	24,822.63	58.36	41,261.04
Legal	124.71	0.29	187.50
Memberships	2,244.72	5.28	4,075.00
Employee Costs	2,400.55	5.64	11,181.03
Volunteer Expense	10.08	0.02	1,580.65
Postage and Shipping	3,587.69	8.43	7,979.70
Printing and Advertising	909.49	2.14	3,389.12
Space	55,861.26	131.33	710,600.61
Repairs and Maintenance	5,480.46	12.88	89,093.24
Software Support and Maintenance	4,381.45	10.30	23,666.98
Telephone	17,288.96	40.65	63,492.30
Training and Technical Assistance	1,634.38	3.84	30,284.57
Travel	24,578.98	57.79	95,569.71
Utilities	8,228.52	19.35	108,229.00
Vehicles	(205.00)	(0.48)	250,012.14
Utility Assistance	84.64	0.20	1,163,306.95
Food	5,585.25	13.13	888,773.27
Parent Activities	-	-	724.56
Emergency Assistance	-	-	5,696.53
Other	2,835.11	6.67	10,171.89
Depreciation	7,636.05	17.95	85,945.89
Total Expenses	\$ 920,210.05	\$ 2,163.42	\$ 7,687,899.24

The accompanying notes are an integral part of the financial statements.

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.

Linden, Texas

Statement of Cash Flows

For the Year Ended September 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (200,546.91)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities	
Depreciation Expense	85,945.89
(Gain) Loss on Sale of Assets	(3,232.28)
(Increase) Decrease in Receivables	(26,270.77)
(Increase) Decrease in Prepaid Expense	9,205.73
Increase (Decrease) in Accounts Payable	159,798.10
Increase (Decrease) in Accrued Salary and Fringe	(6,705.59)
Increase (Decrease) in Accrued Annual Leave	(1,593.03)
Increase (Decrease) in Advances from Grantor	<u>(49,735.73)</u>
Net cash provided by (used in) operating activities	<u>(33,134.59)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from the Sale of Assets	<u>3,232.28</u>
Net cash provided by (used in) investing activities	<u>3,232.28</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal Payments on Long-Term Debt	(21,020.62)
Proceeds from Line of Credit	385,224.26
Principal Payments on Line of Credit	<u>(374,874.26)</u>
Net cash provided by (used in) financing activities	<u>(10,670.62)</u>

Net Increase (Decrease) in Cash and Cash Equivalents (40,572.93)

Cash, September 30, 2011 262,626.50

Cash, September 30, 2012 \$ 222,053.57

Supplemental Information

Cash Paid During the Period for:

Interest Expense \$ 3,748.94

The accompanying notes are an integral part of the financial statements.

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.

Linden, Texas

Notes to the Financial Statements

September 30, 2012

1. NATURE OF ACTIVITIES

Community Services of Northeast Texas, Inc. (the "Organization") is a nonprofit organization established in 1965 which serves the economically and socially disadvantaged persons in north east Texas consisting of Bowie, Camp, Cass, Harrison, Marion, Morris, and Panola counties.

The Organization provides services to stimulate a better focusing of all available local, state, federal and private resources upon the goal of enabling low income families and individuals to attain the skills, knowledge, motivations and to secure the opportunities needed for them to become more fully self sufficient. The Organization administers the following major sources of revenue to meet the needs of the area it serves: Head Start Programs, Low-Income Home Energy Assistance Programs, Community Services Block Grant Programs, Title III, Part C – Nutrition Service Programs, Nutrition Services Incentive Programs, and others.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization's program policy is to prepare its financial statements on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Assets are recorded at cost when purchased, or in the case of gifts, at fair value at the date of the gift. Investments are valued at fair value for financial statement presentation.

Accounting Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid instruments with a maturity of three months or less when acquired.

Allowance for Doubtful Accounts

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of their grantors to meet their obligations. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

It is the Organization's policy to capitalize capital assets with a useful life of more than one year and a value over \$5,000.00. Capital assets are stated at cost, if purchased, and at fair value at the date of donation, if donated. Such items acquired under grants from Federal and state sources are considered to be owned by the Organization while used in the programs for which they are purchased or in programs authorized in the future. However, the funding source has a reversionary interest in the property. Property and equipment purchased or donated to the corporate account are depreciated based on estimated useful lives using the straight-line method as follows:

Buildings and Improvements	5-30 Years
Furniture and Equipment	5-7 Years
Vehicles	5 Years

Net Assets

The Organization's net assets are classified as follows:

Unrestricted net assets: Unrestricted net assets represent those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Changes in net assets arising from exchange transaction are included as well as resources derived from gifts and contributions. These resources are used at the discretion of the governing board to meet current expenses for any purpose.

Temporarily restricted net assets: Temporarily restricted net assets consist of those net assets whose use by the Organization has been limited by donors to later periods of time or after specified dates or to specified purposes.

Permanently restricted net assets: Permanently restricted net assets consist of funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions. If a restriction is satisfied in the same period the contribution is received, the contribution is reported as unrestricted.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from Federal income taxes under IRS Code Section 501(c)(3). In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

In-Kind Goods/Services

The Organization receives donated goods and services as part of its programs. In-kind contributions are shown both as support and expenditures in these programs, and are recorded at the fair value of the goods or services at the time of donation. Amounts included are only those allowable under generally accepted accounting principles.

Allocated Costs

The Organization allocates its expenses on a functional basis among its various programs and support activities. Expenses that can be identified with a specific program and support activity are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated using various allocation methods.

3. CONCENTRATION OF CREDIT RISK

At year-end, the carrying amount of the Organization's deposits was \$222,053.57. The bank balance was held at three banks resulting in a concentration of credit risk. The bank balance was \$423,272.34. Of the bank balance, \$257,494.38 was covered by FDIC insurance and the remaining \$168,828.17 was collateralized by pledged securities held under joint custody receipts by a third-party bank in the Organization's name.

4. RECEIVABLES, NET

Receivables at September 30, 2012, consist of amounts due as follows:

Head Start	\$	75,410.67
Head Start - USDA		24,814.66
Other Head Start		74.08
Department of Aging and Disability Services (DADS)		41,375.28
Community Services Block Grant (CSBG)		17,537.96
East Texas Council of Governments (ETCOG)		34,782.29
Child Care Wellness Grant		<u>8,460.53</u>
Total Receivables, Net	\$	<u>202,455.47</u>

All accounts receivable at September 30, 2012, are considered collectible, therefore, the allowance for uncollectibility is zero.

5. CAPITAL ASSETS, NET

Following are the changes in capital assets for the year ended September 30, 2012:

	Balance 9/30/2011	Additions	Retirements	Balance 9/30/2012
Capital Assets				
Land	\$ 22,610.00	\$ -	\$ -	\$ 22,610.00
Buildings	571,232.24	-	-	571,232.24
Equipment	390,767.90	-	-	390,767.90
Vehicles	826,027.27	-	60,011.50	766,015.77
Total Capital Assets	<u>1,810,637.41</u>	<u>-</u>	<u>60,011.50</u>	<u>1,750,625.91</u>
Accumulated Depreciation	<u>(1,275,647.22)</u>	<u>(85,945.89)</u>	<u>(60,011.50)</u>	<u>(1,301,581.61)</u>
Total Net Capital Assets	<u>\$ 534,990.19</u>	<u>\$ (85,945.89)</u>	<u>\$ -</u>	<u>\$ 449,044.30</u>

6. REFUNDABLE GRANT ADVANCES

Refundable grant advances at September 30, 2012, consist of grant funds received in advance of expenditures in the following programs:

Comprehensive Energy Assistance Program (CEAP)	\$ 24,984.30
--	--------------

7. NOTES PAYABLE

The Organization signed an agreement dated April 9, 2009, with Capital One, National Association in order to purchase two vehicles, which requires 60 monthly consecutive principal and interest payments at \$312.17 each, beginning June 1, 2009, including interest at 5.00% through May 1, 2014. The note is secured by two vehicles. The balance on this note at September 30, 2012, is \$6,000.50.

The Organization signed an agreement dated July 13, 2009, with Capital One, National Association to assist with operations, which requires 60 monthly consecutive principal and interest payments at \$1,684.71 each, beginning September 1, 2009, including interest at 5.00% through August 1, 2014. The note is unsecured. The balance on this note at September 30, 2012, is \$54,693.68.

The following is a summary of changes in notes payable for the year ended September 30, 2012:

	Principal September 30, 2011	Principal Received (Paid)	Principal September 30, 2012	Interest Paid
<u>Obligations:</u>				
Two Vehicles	\$ 9,325.16	\$ (3,324.66)	\$ 6,000.50	\$ 421.38
Refinanced Note	<u>54,693.68</u>	<u>(17,695.96)</u>	<u>36,997.72</u>	<u>2,520.56</u>
	<u>\$ 64,018.84</u>	<u>\$ (21,020.62)</u>	<u>\$ 42,998.22</u>	<u>\$ 2,941.94</u>

7. NOTES PAYABLE (Continued)

The schedule of maturities of notes payable is as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2013	\$ 22,297.65
2014	<u>20,700.57</u>
Total	<u>\$ 42,998.22</u>

8. LINE OF CREDIT

The Organization has obtained a line of credit with Capital One, National Association, Irving, Texas for operating expenses. The interest rate on the line of credit is 6.25%. The balance on the note at September 30, 2012 was \$10,350.00 and interest paid during the fiscal year ended September 30, 2012, was \$807.00.

9. OPERATING LEASES

As of September 30, 2012, the Organization has entered into a number of operating leases for space. Total payments for the year ended September 30, 2012, were \$92,820.00. Under the current lease agreements, the future minimum lease rentals are as follows:

2013	\$ 65,440.00
2014	37,400.00
2015	23,600.00
2016	9,600.00
2017	9,600.00

10. COMPENSATED ABSENCES

Employees earn annual leave based upon the following schedule:

<u>LENGTH OF SERVICE</u>	<u>FULL-TIME 8 Hours Per Day</u>	<u>PART-TIME 6 Hours Per Day</u>	<u>PART-TIME 4 Hours Per Day</u>
0 – 3 Years	3 Hours	2.25 Hours	1.5 Hours
4 – 10 Years	5 Hours	3.75 Hours	2.5 Hours
11 – 19 Years	7 Hours	5.25 Hours	3.5 Hours
20 and Over	8 Hours	6 Hours	4 Hours

Hours are awarded per pay period.

Employees may accumulate up to a maximum balance of 208 hours. No employee may carry over more than 208 hours of accrued leave into a new fiscal year and hours in excess of 208 hours will be forfeited. Upon termination of employment, permanent employees will be paid for unused Personal Leave that has been earned through the last actual day worked up to a maximum of 80 hours. However, if a reduction in force occurs as a result of a decrease in or elimination of grant funds, the full 80 hours may not be reimbursed upon termination of employment.

10. COMPENSATED ABSENCES (Continued)

The Organization determines a liability for compensated absences when the following conditions are met:

1. The Organization's obligation relating to employees' rights to receive compensation for future absences is attributable to employee services already rendered;
2. The obligation relates to rights that vest or accumulate;
3. Payment of the compensation is probable; and
4. The amount can be reasonably estimated and is material to the financial statements.

In accordance with the above criteria, the Organization has accrued a liability for annual leave which has been earned, but not taken, by Organization employees.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily Restricted Net Assets consist of donations received and are restricted to use and are presented by program as follows:

Utilities – Upshur Rural	\$	3,140.89
Salvation Army		4,058.17
TLC		4,270.17
TLC – Bowie County		<u>5.21</u>
Total Temporarily Restricted Net Assets (Deficit)	\$	<u>11,474.44</u>

12. IN-KIND CONTRIBUTIONS

Under the grant agreements, the Organization (grantee) receives a percentage of total estimated project funds from the Federal government. The balance of the project funds is contributed to the Organization from non-Federal sources in the form of "in-kind" contributions of services or goods from the Organization, delegated agencies, the community, or non-Federal governmental organizations. The services and goods donated are valued according to the grant guidelines. In-kind revenues and in-kind expenses that are allowable under generally accepted accounting principles (GAAP) have been recognized in the Head Start programs.

Head Start	Non-Professional Volunteers	\$	515,098.98
	Professional Services		82,198.14
	Supplies		9,998.78
	Mileage		53,568.14
	Space		<u>612,841.79</u>
	Total In-Kind		1,273,705.83
	Non-GAAP		<u>(515,098.98)</u>
	In-Kind per Audit	\$	<u>758,606.85</u>

12. IN-KIND CONTRIBUTIONS (Continued)

Title III – C(1)	Non-Professional Volunteers	\$ 32,209.27
	Total In-Kind	32,209.27
	Non-GAAP	<u>(32,209.27)</u>
	Total In-Kind Per Audit	<u>\$ 0.00</u>
Title III – C(2)	Non-Professional Volunteers	\$ 34,789.60
	Total In-Kind	34,789.60
	Non-GAAP	<u>(34,789.60)</u>
	Total In-Kind Per Audit	<u>\$ 0.00</u>

13. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

14. CONCENTRATION OF RISK

The Organization receives substantial revenue in the form of Federal and State grants. The effect on the Organization's ability to continue operations if these funding sources were lost or cancelled is unknown.

15. SUBSEQUENT EVENTS

The Organization evaluated events and transactions occurring subsequent to September 30, 2012, through May 9, 2013, the date the financial statements were available to be issued. During this period, there were no subsequent events requiring recognition in the financial statements. Additionally, there were no nonrecognized subsequent events requiring disclosure.

SUPPLEMENTAL INFORMATION

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.

Combining Schedule of Activities
For the Year Ended September 30, 2012

	Head Start 01 93.600/10.558 Early Childhood	Wellness Grant 18 10.579 Early Childhood	DADS 02 93.045 Elderly and Aging	ETCOG 07 93.045/93.053 Elderly and Aging	CSBG 05 93.569 Community Services	CSBG - Special Program 19 93.569 Community Services
Revenues and Gains						
Federal Grant Income	\$ 3,658,650.02	\$ 23,981.69	\$ 1,141,773.08	\$ 239,755.39	\$ 308,702.67	\$ 16,063.00
Donations	-	-	169.00	13,695.34	-	-
In-Kind Donations	1,273,705.83	-	-	66,998.87	-	-
Miscellaneous Revenue	-	-	-	348.00	-	-
Gain/(Loss) on Sale of Assets	1,906.50	-	-	-	-	-
Transfers	-	8,990.11	(32,073.94)	(927.96)	-	-
Total Revenue and Gains	4,934,262.35	32,971.80	1,109,868.14	319,869.64	308,702.67	16,063.00
Administration						
Salaries	319,294.57	1,397.69	75,787.72	39,636.62	93,475.86	-
Salaries Non-Cash	9,615.83	-	-	-	-	-
Payroll Taxes	26,252.97	106.65	7,027.45	3,741.47	7,352.48	-
Fringe Benefits	25,519.05	-	1,958.24	1,998.37	5,950.66	-
Fringe Benefits Non-Cash	2,500.10	-	-	-	-	-
Accounting and Audit	25,689.69	-	4,021.84	4,201.22	5,326.72	-
Supplies	9,841.18	49.98	1,412.33	882.35	1,875.62	-
Supplies Non-Cash	1,764.00	-	-	-	-	-
Dues and Subscriptions	656.94	-	226.01	193.42	480.16	-
Equipment	10,248.97	-	2,123.89	1,248.09	2,659.30	-
Meetings	1.89	-	0.09	0.09	7.43	-
Insurance	14,536.74	-	7,652.74	1,639.62	2,222.15	-
Legal	81.25	-	3.75	7.50	20.00	-
Memberships	135.00	-	445.00	-	1,550.00	-
Employee Costs	597.79	-	119.44	34.30	128.35	-
Postage and Shipping	2,707.76	-	197.75	235.81	386.03	-
Printing and Advertising	441.39	-	81.90	49.14	237.36	-
Space	7,429.90	-	1,292.10	679.10	9,120.90	-
Space Non-Cash	31,687.77	-	-	-	-	-
Repairs and Maintenance	3,873.14	-	687.21	357.07	769.61	-
Software Support and Maintenance	2,543.31	-	363.33	231.21	1,000.97	-
Telephone	9,727.45	-	1,730.61	1,000.74	4,866.35	-
Training and Technical Assistance	1,638.22	-	-	-	-	-
Travel	9,996.05	-	2,147.51	1,727.77	4,748.49	5,058.12
Travel Non-Cash	736.57	-	-	-	-	-
Utilities	4,801.61	-	908.23	554.81	1,807.93	-
Other	3,009.60	-	446.16	458.17	299.49	-
Depreciation	-	-	-	-	-	-
Program						
Salaries	2,104,581.39	2,649.27	209,524.13	54,537.18	96,535.22	-
Salaries Non-Cash	466,803.67	-	-	66,998.87	-	-
Payroll Taxes	187,168.21	250.11	20,118.52	5,170.79	8,880.05	-
Fringe Benefits	280,452.22	-	42,199.16	10,164.32	11,113.38	-
Fringe Benefits Non-Cash	118,377.52	-	-	-	-	-
Supplies	60,908.69	16,493.97	20,554.33	6,051.40	4,106.02	-
Supplies Non-Cash	8,234.78	-	-	-	-	-
Dues and Subscriptions	63.15	-	133.20	8.10	1.55	-
Equipment	24,189.80	-	8,014.84	2,795.52	5,797.71	-
Meetings	1,766.03	140.00	26.64	26.64	318.32	-
Insurance	12,119.64	-	1,332.44	860.22	2,067.75	-
Legal	62.50	-	-	-	-	-
Memberships	1,200.00	-	-	-	625.00	-
Employee Costs	6,192.99	-	879.80	309.66	344.55	-
Volunteer Expense	573.16	-	96.00	36.00	851.72	-
Postage and Shipping	2,849.90	1,134.19	101.14	52.13	163.23	-
Printing and Advertising	1,872.73	-	153.98	38.49	221.14	-
Space	54,152.00	-	-	4,800.00	11,774.00	-
Space Non-Cash	581,154.02	-	-	-	-	-
Repairs and Maintenance	68,133.33	314.03	5,025.67	9,733.94	354.24	-
Software Support and Maintenance	8,163.98	-	-	-	4,146.26	-
Telephone	29,515.94	-	2,532.18	4,369.75	7,843.27	-
Training and Technical Assistance	28,646.35	-	-	-	-	-
Travel	13,938.86	-	1,667.84	655.70	1,559.51	-
Travel Non-Cash	52,831.57	-	-	-	-	-
Utilities	64,200.51	320.68	52.68	33,492.37	1,227.85	-
Vehicle	70,164.78	576.43	144,533.05	27,349.25	6,436.04	-
Utility Assistance	-	-	-	-	-	-
Contractual Labor	-	-	-	-	-	-
Food	154,636.37	491.25	577,948.44	139,093.95	-	11,004.88
Parent Activities	281.38	443.18	-	-	-	-
Emergency Assistance	-	-	-	-	-	-
Other	5,698.14	567.77	807.00	45.30	50.00	-
Total Expenses	4,934,262.35	24,935.20	1,144,334.34	425,466.45	308,702.67	16,063.00
Increase (Decrease) in Net Assets	-	8,036.60	(34,466.20)	(105,596.81)	-	-
NET ASSETS, Beginning of Year	-	197.42	(64,624.99)	17,760.67	-	-
NET ASSETS, End of the Year	\$ -	\$ 8,234.02	\$ (99,091.19)	\$ (87,836.14)	\$ -	\$ -

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.

Combining Schedule of Activities
For the Year Ended September 30, 2012

	CEAP 08 93.568	Rural 12 N/A	Salvation Army 13 N/A	TLC 14 N/A	TLC - Bowie County 15 N/A	IP Grant 10 N/A
Program Code CFDA No.	Emergency Services	Emergency Services	Emergency Services	Emergency Services	Emergency Services	Management and General
Revenues and Gains						
Federal Grant Income	\$ 1,303,640.06	\$ -	\$ -	\$ -	\$ -	\$ -
Donations	-	3,068.84	6,953.57	702.18	-	-
In-Kind Donations	-	-	-	-	-	-
Miscellaneous Revenue	-	-	-	896.00	-	-
Gain/(Loss) on Sale of Assets	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Total Revenue and Gains	1,303,640.06	3,068.84	6,953.57	1,598.18	-	-
Administration						
Salaries	44,000.64	-	-	-	-	-
Salaries Non-Cash	-	-	-	-	-	-
Payroll Taxes	4,135.95	-	-	-	-	-
Fringe Benefits	281.29	-	-	-	-	-
Fringe Benefits Non-Cash	-	-	-	-	-	-
Accounting and Audit	3,709.49	-	-	-	-	-
Supplies	109.16	-	-	-	-	-
Supplies Non-Cash	-	-	-	-	-	-
Dues and Subscriptions	194.20	-	-	400.00	-	-
Equipment	498.52	-	-	-	-	-
Meetings	-	-	-	-	-	-
Insurance	230.05	-	-	-	-	-
Legal	12.50	-	-	-	-	-
Memberships	-	-	-	-	-	-
Employee Costs	12.08	-	-	-	-	-
Postage and Shipping	36.87	-	-	-	-	-
Printing and Advertising	21.84	-	-	-	-	-
Space	844.00	-	-	-	-	-
Space Non-Cash	-	-	-	-	-	-
Repairs and Maintenance	410.75	-	-	-	-	-
Software Support and Maintenance	252.93	-	-	-	-	-
Telephone	138.89	-	-	-	-	-
Training and Technical Assistance	-	-	-	-	-	-
Travel	33.81	-	-	-	-	-
Travel Non-Cash	-	-	-	-	-	-
Utilities	439.79	-	-	-	-	-
Other	133.56	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Program						
Salaries	60,693.37	-	-	-	-	-
Salaries Non-Cash	-	-	-	-	-	-
Payroll Taxes	5,340.49	-	-	-	-	-
Fringe Benefits	5,012.03	-	-	-	-	-
Fringe Benefits Non-Cash	-	-	-	-	-	-
Supplies	2,242.30	-	228.28	-	-	-
Supplies Non-Cash	-	-	-	-	-	-
Dues and Subscriptions	488.73	-	-	-	-	-
Equipment	1,023.58	-	-	-	-	-
Meetings	26.16	-	-	76.00	-	-
Insurance	-	-	-	-	-	-
Legal	-	-	-	-	-	-
Memberships	-	-	-	-	-	-
Employee Costs	187.23	-	-	860.61	-	-
Volunteer Expense	13.67	-	-	-	-	-
Postage and Shipping	54.09	-	-	28.90	-	-
Printing and Advertising	71.15	-	120.00	-	-	-
Space	2,700.00	-	28.00	-	-	-
Space Non-Cash	-	-	-	-	-	-
Repairs and Maintenance	38.69	-	-	-	-	-
Software Support and Maintenance	6,964.99	-	-	-	-	-
Telephone	1,901.55	-	-	-	-	-
Training and Technical Assistance	-	-	-	-	-	-
Travel	279.46	-	-	-	-	-
Travel Non-Cash	-	-	-	-	-	-
Utilities	672.04	15.00	-	-	-	-
Vehicle	67.57	-	1,105.00	(14.50)	-	-
Utility Assistance	1,160,366.64	2,655.34	2,320.43	(2,120.30)	-	-
Contractual Labor	-	-	-	-	-	-
Food	-	-	-	-	-	-
Parent Activities	-	-	-	-	-	-
Emergency Assistance	-	-	5,696.53	-	-	-
Other	-	-	89.50	72.40	-	-
Total Expenses	1,303,640.06	2,670.34	9,587.74	(696.89)	-	-
Increase (Decrease) in Net Assets	-	398.50	(2,634.17)	2,295.07	-	-
NET ASSETS, Beginning of Year	-	2,742.39	6,692.34	1,975.10	5.21	-
NET ASSETS, End of the Year	\$ -	\$ 3,140.89	\$ 4,058.17	\$ 4,270.17	\$ 5.21	\$ -

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.

Combining Schedule of Activities
For the Year Ended September 30, 2012

	Local Admin	Combined	Elimination	Consolidated
Program Code	20	Sub - Totals	Entries	Totals
CFDA No.	N/A		and GAAP	
	Management and General		Adjustments	
Revenues and Gains				
Federal Grant Income	\$ -	\$ 6,692,565.91	\$ -	\$ 6,692,565.91
Donations	5,892.18	30,481.11	-	30,481.11
In-Kind Donations	-	1,340,704.70	(582,097.85)	758,606.85
Miscellaneous Revenue	1,222.18	2,466.18	-	2,466.18
Gain/(Loss) on Sale of Assets	1,325.78	3,232.28	-	3,232.28
Transfers	24,011.79	-	-	-
Total Revenue and Gains	32,451.93	8,069,450.18	(582,097.85)	7,487,352.33
Administration				
Salaries	(1,593.03)	572,000.07	-	572,000.07
Salaries Non-Cash	-	9,615.83	(7,909.61)	1,706.22
Payroll Taxes	-	48,616.97	-	48,616.97
Fringe Benefits	10,119.04	45,826.65	-	45,826.65
Fringe Benefits Non-Cash	-	2,500.10	(2,500.10)	-
Accounting and Audit	9.65	42,958.61	-	42,958.61
Supplies	(1,502.02)	12,668.60	-	12,668.60
Supplies Non-Cash	-	1,764.00	-	1,764.00
Dues and Subscriptions	500.00	2,650.73	-	2,650.73
Equipment	-	16,778.77	-	16,778.77
Meetings	-	9.50	-	9.50
Insurance	(1,023.31)	25,257.99	-	25,257.99
Legal	-	125.00	-	125.00
Memberships	120.00	2,250.00	-	2,250.00
Employee Costs	253.00	1,144.96	-	1,144.96
Postage and Shipping	(30.87)	3,533.35	-	3,533.35
Printing and Advertising	80.00	911.63	-	911.63
Space	4,938.82	24,304.82	-	24,304.82
Space Non-Cash	-	31,687.77	-	31,687.77
Repairs and Maintenance	-	6,097.78	-	6,097.78
Software Support and Maintenance	-	4,391.75	-	4,391.75
Telephone	(134.42)	17,329.62	-	17,329.62
Training and Technical Assistance	-	1,638.22	-	1,638.22
Travel	188.45	23,900.20	-	23,900.20
Travel Non-Cash	-	736.57	-	736.57
Utilities	-	8,512.37	-	8,512.37
Other	(1,676.12)	2,670.86	-	2,670.86
Depreciation	85,945.89	85,945.89	-	85,945.89
Program				
Salaries	2.00	2,528,522.56	-	2,528,522.56
Salaries Non-Cash	-	533,802.54	(453,310.62)	80,491.92
Payroll Taxes	-	226,928.17	-	226,928.17
Fringe Benefits	-	348,941.11	-	348,941.11
Fringe Benefits Non-Cash	-	118,377.52	(118,377.52)	-
Supplies	(1,054.96)	109,530.03	-	109,530.03
Supplies Non-Cash	-	8,234.78	-	8,234.78
Dues and Subscriptions	59.48	754.21	-	754.21
Equipment	-	41,821.45	-	41,821.45
Meetings	93.42	2,473.21	-	2,473.21
Insurance	(377.00)	16,003.05	-	16,003.05
Legal	-	62.50	-	62.50
Memberships	-	1,825.00	-	1,825.00
Employee Costs	1,261.23	10,036.07	-	10,036.07
Volunteer Expense	10.10	1,580.65	-	1,580.65
Postage and Shipping	62.77	4,446.35	-	4,446.35
Printing and Advertising	-	2,477.49	-	2,477.49
Space	-	73,454.00	-	73,454.00
Space Non-Cash	-	581,154.02	-	581,154.02
Repairs and Maintenance	(604.44)	82,995.46	-	82,995.46
Software Support and Maintenance	-	19,275.23	-	19,275.23
Telephone	(0.01)	46,162.68	-	46,162.68
Training and Technical Assistance	-	28,646.35	-	28,646.35
Travel	-	18,101.37	-	18,101.37
Travel Non-Cash	-	52,831.57	-	52,831.57
Utilities	(264.50)	99,716.63	-	99,716.63
Vehicle	(205.48)	250,012.14	-	250,012.14
Utility Assistance	84.84	1,163,306.95	-	1,163,306.95
Contractual Labor	-	-	-	-
Food	5,598.38	888,773.27	-	888,773.27
Parent Activities	-	724.56	-	724.56
Emergency Assistance	-	5,696.53	-	5,696.53
Other	170.92	7,501.03	-	7,501.03
Total Expenses	101,031.83	8,269,997.09	(582,097.85)	7,687,899.24
Increase (Decrease) in Net Assets	(68,579.90)	(200,546.91)	-	(200,546.91)
NET ASSETS, Beginning of Year	594,206.03	558,954.17	-	558,954.17
NET ASSETS, End of the Year	\$ 525,626.13	\$ 358,407.26	\$ -	\$ 358,407.26

FEDERAL COMPLIANCE SECTION

Community Services of Northeast Texas, Inc.
Linden, Texas
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Year End	Pass-Through Entity Identifying Number	CFDA #	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
Head Start	11/30/2011	N/A	93.600	\$ 667,442.51
Head Start	11/30/2012	N/A	93.600	<u>2,776,416.68</u>
			Total 93.600 (M)	<u>3,443,859.19</u>
Passed-through:				
Texas Department of Housing and Community Affairs				
Low-Income Home Energy Assistance Program (CEAP)	12/31/2011	58110001074	93.568	568,621.37
Low-Income Home Energy Assistance Program (CEAP)	12/31/2012	58120001351	93.568	<u>735,018.69</u>
			Total 93.568 (M)	<u>1,303,640.06</u>
Texas Department of Housing and Community Affairs				
Community Services Block Grant	1/20/2012	61110001121	93.569	85,640.07
Community Services Block Grant	7/31/2012	61110001434	93.569	16,063.00
Community Services Block Grant	12/31/2012	61120001286	93.569	<u>223,062.60</u>
			Total 93.569 (M)	<u>324,765.67</u>
HHS Aging Cluster				
Passed-through:				
Texas Department of Aging and Disability Services				
Title III, Part C - Nutrition Services	09/30/2012	1000859	93.045	1,141,773.08
East Texas Council of Governments				
Title III, Part C - Nutrition Services	09/30/2012	01-83111	93.045	<u>168,314.35</u>
			Total 93.045	<u>1,310,087.43</u>
Nutrition Services Incentive Program	09/30/2012	01-83111	93.053	<u>71,391.04</u>
			Total HHS Aging Cluster (M)	<u>1,381,478.47</u>
Total U.S. Department of Health and Human Services				<u>6,453,743.39</u>
<u>U.S. Department of Agriculture</u>				
Passed-through:				
State of Texas Department of Agriculture				
Child and Adult Care Food Program	11/30/2011	FY11-7516008	10.558	49,010.62
Child and Adult Care Food Program	11/30/2012	FY12-7516008	10.558	<u>165,780.21</u>
			Total 10.558	<u>214,790.83</u>
Farm to Child Care Grant Program	08/31/2013	FTC-11-02	10.579	<u>23,981.69</u>
Total U.S. Department of Agriculture				<u>238,772.52</u>
Total Expenditures of Federal Awards				<u>\$ 6,692,515.91</u>

NOTE A -- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Services of Northeast Texas, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(M) = Major Program

JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

**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
Community Services of Northeast Texas, Inc.
Linden, Texas

We have audited the financial statements of Community Services of Northeast Texas, Inc. (a nonprofit organization) as of and for the year ended September 30, 2012, and have issued our report thereon dated May 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Community Services of Northeast Texas, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Community Services of Northeast Texas, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Services of Northeast Texas, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Jarred, Gilmore & Phillips, PA

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

May 9, 2013
Chanute, Kansas

JARRED, GILMORE & PHILLIPS, PA
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Community Services of Northeast Texas, Inc.
Linden, Texas

Compliance

We have audited Community Services of Northeast Texas, Inc.'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Community Services of Northeast Texas, Inc.'s major federal programs for the year ended September 30, 2012. Community Services of Northeast Texas, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Community Services of Northeast Texas, Inc.'s management. Our responsibility is to express an opinion on Community Services of Northeast Texas, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 program occurred. An audit includes examining, on a test basis, evidence about Community Services of Northeast Texas, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Community Services of Northeast Texas, Inc.'s compliance with those requirements.

As described in item 2012-001 in the accompanying schedule of findings and questioned costs, Community Services of Northeast Texas, Inc. did not comply with requirements regarding period of availability that is applicable to its aging cluster. Compliance with such requirements is necessary, in our opinion, for Community Services of Northeast Texas, Inc. to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Community Services of Northeast Texas, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

Management of Community Services of Northeast Texas, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Community Services of Northeast Texas, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Community Services of Northeast Texas, Inc.'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 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 program will not be prevented, or detected and corrected, on a timely basis.

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

Community Services of Northeast Texas, Inc.'s responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit Community Services of Northeast Texas, Inc.'s responses and, accordingly, we express no opinion on the responses.

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



JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

May 9, 2013
Chanute, Kansas

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.
Linden, Texas

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

The auditors' report expresses an unqualified opinion on the financial statements of Community Services of Northeast Texas, Inc.

Internal Control over Financial Reporting:

Material weakness(es) identified? _____ Yes X No
 Significant deficiencies identified that are not considered to be a material weaknesses? _____ Yes X No
 Non compliance or other matters required to be reported under *Government Auditing Standards*? _____ Yes X No

Federal Awards:

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiencies identified that are not considered to be a material weaknesses? _____ Yes X No

The auditors' report on compliance for the major federal award programs for Community Services of Northeast Texas, Inc. expresses a qualified opinion.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X Yes _____ No

Identification of major programs:

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Head Start	CFDA 93.600
Community Services Block Grant	CFDA 93.569
Low-Income Home Energy Assistance Program	CFDA 93.568
HHS Aging Cluster	
Title III, Part C – Nutrition Services	CFDA 93.045
Nutrition Services Incentive Program	CFDA 93.053

The threshold for distinguishing Types A and B programs was \$300,000.00.

Auditee qualified as a low risk auditee? X Yes _____ No

II. FINDINGS – FINANCIAL STATEMENT AUDIT

None

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.
Linden, Texas

Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2012

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 2012-001 – Period of Availability

Questioned
Costs

U.S. Department of Health and Human Services

Aging Cluster:

None

Special Programs for the Aging—Title III, Part C-- CFDA 93.045
Nutrition Services Incentive Program – CFDA 93.053

Compliance requirement: Period of Availability of Federal Funds

Condition:

Non –Federal entities are required to liquidate all obligations incurred under the award no later than 90 days after the end of the funding period. The Federal agency may extend this deadline upon written request (CFR section 215.71).

Context:

The Organization did not liquidate final obligations within the required time frame. Due to overspending the grant and the necessary injection of local funds in the amount of \$170,751.46, the unliquidated obligations were funded with local funds. The condition requires that all obligations to be liquidated within 90 days after the end of the funding period.

Effect:

The deficiencies in the design and operation of the internal controls in this area could result is the disallowance of the expenses by grantors and the expense would have to be paid with local funds.

Cause:

The Organization no longer has adequate reserves to be able to fund expenses awaiting reimbursement from the grantor.

Recommendation:

Controls should be put into place that allows all expenses to be paid timely and reserves should be built back up to levels sufficient to fund the operations of the Organization. A goal should be set to achieve two months' expenses in reserve. Currently, two months' expenses would be \$261,633.46.

Views of responsible officials and planned corrective action:

See the Corrective Action Plan on pages 25 of the current year audit.

COMMUNITY SERVICES OF NORTHEAST TEXAS, INC.
Linden, Texas

Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2012

None

CORRECTIVE ACTION PLAN

May 9, 2013

Cognizant or Oversight Agency for Audit

Community Services of Northeast Texas, Inc. respectfully submits the following corrective action plan for the year ended September 30, 2012.

Name and address of independent certified public accounting firm: Jarred, Gilmore & Phillips, PA, P.O. Box 779, 1815 S Santa Fe, Chanute, Kansas 66720.

Audit period: Year ended September 30, 2012.

The findings from the May 9, 2013 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Finding 2012-001 – Period of Availability

Recommendation:

Controls should be put into place that allows all expenses to be paid timely and reserves should be built back up to levels sufficient to fund the operations of the Organization. A goal should be set to achieve two months' expenses in reserve. Currently, two months' expenses would be \$261,633.46.

Action Taken:

Management is aware of the cash flow issues and is aggressively seeking unrestricted funds to help restore reserves to a manageable amount.

If the Oversight Agency for Audit has questions regarding this plan, please call Dan Boyd, Executive Director, at (903)756-5596.

Sincerely,

Community Services of Northeast Texas, Inc.

Community Services of Northeast Texas, Inc.