



Required Auditor Disclosure Letter

Audit is Completed

November 20, 2015

To the Board of Directors
of the Southeast Texas Regional Advisory Council:

We have audited the financial statements of the Southeast Texas Regional Advisory Council (SETRAC) (a nonprofit organization), as of and for the year ended August 31, 2015, and have issued our report thereon dated November 20, 2015. Professional standards require that we provide the Board of Directors (the "governing body") with the following information related to our audit.

I. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 19, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with its oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the governing body in our engagement letter dated November 19, 2014.

III. Significant Audit Findings

1. *Qualitative Aspects of Accounting Practices*

- ✓ A. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SETRAC are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by SETRAC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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- B. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of capital assets as based on industry standards relating to capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

- C. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosure is the revenue concentrations.

2. Difficulties Encountered in Performing the Audit

- ✓ We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures.

4. Disagreements with Management

- ✓ For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 20, 2015.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SETRAC's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SETRAC's auditors. However, these discussions

occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of SETRAC and is not intended to be and should not be used by anyone other than these specified parties.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

Client: **Southeast Texas Regional Advisory Council**
 Engagement: **4.1 - SETRAC 08/31/15**
 Period Ending: **8/31/2015**
 Trial Balance: **2.2.01 - Trial Balance**
 Workpaper: **2.5.06 - Adjusting Journal Entries Report**

(Entries serve to close books for the audited period)

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
Adjusting entry to account for beginning capital asset activity.				
19001	Office equipment		55,532.00	
19002	Vehicles		2,837,096.88	
19003	Communications Equipment		398,022.40	
19004	Computer equipment		5,703.40	
19005	Field equipment		742,273.00	
19100	Depreciation			1,669,918.33
32000	Unrestricted Net Assets			2,368,709.35
Total			<u>4,038,627.68</u>	<u>4,038,627.68</u>
Adjusting Journal Entries JE # 2				
Adjusting entry to reverse prior year payables and receivables.				
44500	Government Grants		47,964.00	
44560	Grant Tobacco		3,000.00	
31500	Temp. Restricted Net Assets			26,607.23
44520	Grant ASPR			24,356.77
Total			<u>50,964.00</u>	<u>50,964.00</u>
Adjusting Journal Entries JE # 3				
Adjusting entry to fix remaining fund balance difference against APIR revenue.				
44520	Grant ASPR		323,910.06	
31500	Temp. Restricted Net Assets			323,910.06
Total			<u>323,910.06</u>	<u>323,910.06</u>
Adjusting Journal Entries JE # 4				
Adjusting entry to reclass revenue.				
46430	Miscellaneous Revenue		68,663.50	
44500	Government Grants			68,663.50
Total			<u>68,663.50</u>	<u>68,663.50</u>
Adjusting Journal Entries JE # 5				
Adjusting entry to fix accounts receivables and grant revenue.				
44520	Grant ASPR		1,175,853.80	
11400	Grants Receivable (w Class)			796,953.36
25800	Unearned or Deferred Revenue			373,074.82
44500	Government Grants			2,825.62
44560	Grant Tobacco			3,000.00
Total			<u>1,175,853.80</u>	<u>1,175,853.80</u>

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Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 6				
Adjusting entry to show temporarily restricted assets in fund balance.				
31500	Temp. Restricted Net Assets		4,541,372.79	
31550	Release Temp Restriction - Mon			3,432,663.94
32000	Unrestricted Net Assets			1,108,708.85
Total			<u>4,541,372.79</u>	<u>4,541,372.79</u>
Adjusting Journal Entries JE # 7				
Adjusting entry for current year depreciation.				
690000	Depreciation		399,779.00	
19100	Depreciation			399,779.00
Total			<u>399,779.00</u>	<u>399,779.00</u>