

Houston-Galveston Area Council
Houston, Texas



Comprehensive Annual
Financial Report



For the year ended
December 31, 2014

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**
of the
HOUSTON-GALVESTON AREA COUNCIL
Houston, Texas

For the year ended
December 31, 2014

Nancy Haussler, CPA
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Member of the Government Finance Officers Association
of the United States and Canada

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**HOUSTON-GALVESTON AREA COUNCIL
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended December 31, 2014**

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Introductory Section





Houston-Galveston Area Council

July 7, 2015

The Honorable Judge Nate McDonald and Members
of the Board of Directors
Houston-Galveston Area Council
Houston, TX

Dear Judge McDonald and Members of the Board of Directors:

The Comprehensive Annual Financial Report (CAFR) of the Houston-Galveston Area Council, (the “Council” or “H-GAC”) for the fiscal year ended December 31, 2014 is hereby submitted. This report was prepared by the Department of Finance, which accepts responsibility for the accuracy, completeness, and fairness of the data presented. To provide a reasonable basis for making these representations, management of the Houston-Galveston Area Council has established a comprehensive framework of internal controls that is designed to protect H-GAC from loss and allow the compilation of reliable information to prepare the attached financial statements in conformity with GAAP. It should be noted that reasonable internal control measures weigh the cost of those procedures against their benefits and H-GAC’s internal control measures provide reasonable but not absolute assurance that the financial statements are free of material misstatement. We believe the data, as presented, is accurate in all material respects, that it properly reflects the financial position and the results of operation of the Council, and that all disclosures have been made to enable the reader to acquire the maximum understanding of financial affairs concerning the Council. These financial statements are presented annually in compliance with the Office of Management and Budget’s Circular A-133, the Single Audit Act of 1984, as amended and Article X, Section 2, of the Council’s Bylaws.

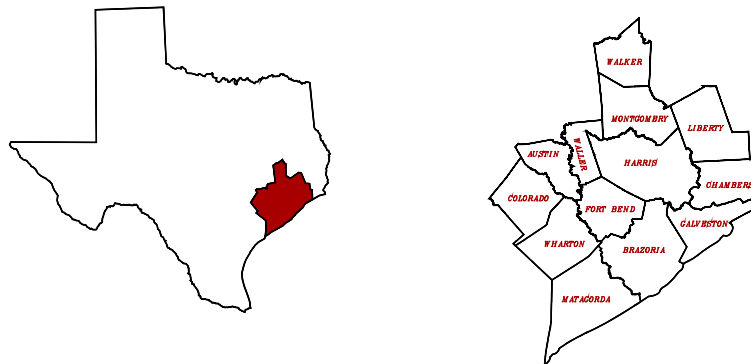
WhitleyPenn Certified Public Accountants have issued an unmodified opinion, sometimes referred to as a “clean” opinion on the H-GAC financial statements included herein. This report is located on page 13 at the front of the financial section of the report.

The Council has prepared Management’s discussion and analysis (MD&A) which immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. This MD&A is intended to complement this letter of transmittal and should be read in conjunction with it.

Profile of the Houston-Galveston Area Council

On September 9, 1966, a regional planning commission known as the Houston-Galveston Area Council 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 thirteen county region of Southeast Texas. The organization is one of 24 regional councils in Texas. Local governments created H-GAC to develop a systematic method of evaluating and addressing common concerns that affect several governmental jurisdictions. Cooperative efforts to resolve regional issues such as employment, water and air pollution, crime, traffic and mobility, drainage and flooding, care of the elderly, and waste disposal have received collective action through H-GAC. 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.

H-GAC is governed by a General Assembly of 132 delegates from member local governments. A Board of Directors composed of 36 locally elected officials, members representing county governments, cities, school districts and soil and water conservation districts provide more specific guidance and policy-making through its regular monthly meetings. During 2014, H-GAC's membership was comprised of the 13 county governments, 109 cities, and 10 school districts, including all major general-purpose local governments in the region. According to 2010 estimates from the U.S. Bureau of Census, these member governments represented approximately 6.1 million citizens and covered an area of 12,500 square miles. Below is a graphic representation of the H-GAC region and its location in the state of Texas.



Economic Condition and Outlook

The Texas economy is alive and well, according to the data compiled by the State Comptroller's office. During 2014, Texas was again a leader in job growth. While the rest of the nation continues to struggle with unemployment and has only reached 44% of the employment level before the recession, Texas recouped all pre-recession jobs by the end of 2011. The Texas unemployment rate has been at or below the national rate for 100 consecutive months. The Comptroller's office further reports that Texas' gross domestic product grew by 3.8% in 2013 compared to the national level of 1.8%. Additionally, Forbes

magazine highlighted 5 Texas cities in their top 10 list of the “coolest” cities to live in the United States with Houston ranking #1 on the list. Dallas, San Antonio, Austin, and Fort Worth also made the list.

While gas prices fell in 2014, the influx of people moving to the lone star state boosted the housing markets and helped offset the dip in oil revenues. Sales tax revenues increased 1.2% for the year. Collection of sales tax revenue has increased for 61 consecutive months (year over year) with improvement across all major economic sectors.

This astounding rate of growth requires strategic planning to manage infrastructure and natural resources to their maximum effectiveness. To that end, the Houston-Galveston Area Council collaboratively engages the citizens and elected officials in the region to move forward and continue to demonstrate that innovative solutions are possible when everyone works together.

Major Initiatives

Environmental Planning and Economic Development

H-GAC is actively involved in building sustainable communities through careful environmental and economic development planning. During 2014, the Council funded over \$635,000 in grants to local governments for recycling programs, hazardous waste disposal, solid waste management and enforcement of environmental laws. Additionally, the Local Development Corporation helped stimulate the local economy with federally funded small business loans which allowed 5 local businesses to expand their operations and increase employment to the region.

Workforce Development

The Gulf Coast Workforce Board’s mission is to help employers meet their workforce needs and individuals build careers so both can compete in the global economy. H-GAC is the administrative entity for the Gulf Coast Workforce Board. In that function, H-GAC provides leadership and direction to a network of employment service providers to help the unemployed and underemployed in the region. In 2014, H-GAC provided service for more than 355,000 people in the region to get a job, keep a job, or get a better job.

Part of H-GAC’s mission is to help plan for tomorrow, and the workforce program did just that by providing more than 2,500 scholarships for training and providing summer jobs to 701 eligible youths. These jobs allowed the high school and college students to obtain practical experience as they prepare to be tomorrow’s workforce and industry leaders.

Public Services

The H-GAC region covers more than 12,500 square miles, houses more than 6 million people, hosts two major airports, contains critical industries for national security, and provides leading-edge technology in a multiplicity of industries. The region also contains the fourth

largest city in the United States, Houston, and the seventh largest container port in the U.S., the Port of Houston.

In response to this, public officials are critically aware of the security risks that such a dynamic region represents. Local governments in the region utilize the services of H-GAC to obtain grant funds and provide a forum for an integrated security plan.

Additionally, H-GAC has been providing government-to-government procurement services for over thirty-five years to local governments and non-profits from coast to coast. This program allows members an opportunity to buy from a diverse list of goods and services and remain compliant with rigorous government procurement requirements. During 2014, H-GAC's cooperative purchasing program processed over \$500 million in purchase orders for products ranging from fire trucks to radio parts.

Transportation Planning and Air Quality

One of the primary goals of the H-GAC is to improve the quality of life for the citizens of the region. With an ever-increasing number of people in the area, planning the various modes of transportation for people, goods, and services is a daunting task. H-GAC's transportation policy council obligated \$500 million of federal highway funds for state and local highway projects in 2014. Additionally, over \$300 million of federal transit money was provided to local transit agencies and local governments during the year. Staying focused on reducing congestion, H-GAC administered transit pilot projects that served over 37,000 riders each month during 2014 and we also assisted more than 35,000 citizens to participate in carpooling in the region. While there is still much to do, the staff administering the transportation projects for the region continues to seek innovative and creative solutions to solve the transit challenges of the area.

Financial Planning and Policies

The Board of Directors approves a government-wide financial plan for revenues and expenditures each year at its December meeting. This plan includes both restricted and unrestricted revenue sources. The restricted revenue sources (contracts and grants) often span more than one fiscal year. Estimates are made by management on the timing of these revenues and are reflected in the appropriate fiscal year financial plan. H-GAC recognizes that the financial plan must be flexible enough to adjust for revenues that do not materialize and capitalize on unforeseen opportunities as they occur. Therefore, throughout the year, the Board of Directors approves amendments to the financial plan when funding changes become known. The financial plan adopted is on a basis consistent with generally accepted accounting principles. Control of the financial plan is maintained at the project level with management authorized to make transfers of budgeted amounts between object class levels within a project as allowed by grantor agencies.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of

Achievement for Excellence in "Financial Reporting to the Houston-Galveston Area Council for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2013. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

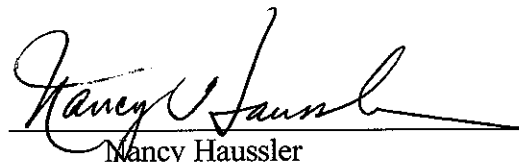
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This report could not have been accomplished without the dedication and efficiency of the Council's Financial, Administrative, and Program management staff. Special acknowledgement should also be given to the Council's auditors, WhitleyPenn whose expertise lent greatly this report's completion. Finally, we would like to thank the members of the Board of Directors for their interest and support in planning and conducting the financial operations of the Council in a responsible and progressive manner.

Respectfully submitted,



Jack Steele
Executive Director



Nancy Haussler
Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Houston-Galveston Area Council
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO

**HOUSTON-GALVESTON AREA COUNCIL
PRINCIPAL OFFICIALS**

**OFFICERS OF THE BOARD OF DIRECTORS
2014**

CHAIR
Councilmember Darrell Morrison
City of Pasadena

CHAIR ELECT
County Judge Nate McDonald
Matagorda County

VICE CHAIR
Councilmember Chuck Engelken, Jr.
City of La Porte

ADMINISTRATIVE STAFF

Executive Director	Jack Steele
Chief Operating Officer	Chuck Wemple
Chief Financial Officer	Nancy Haussler
Manager of Internal Audit	Charles Hill
Manager of Intergovernmental Relations	Rick Guerrero

H-GAC MEMBER GOVERNMENTS

Counties

Austin	Galveston	Walker
Brazoria	Harris	Waller
Chambers	Liberty	Wharton
Colorado	Matagorda	
Fort Bend	Montgomery	

Cities over 25,000 Population

Baytown	Huntsville	Pearland
Conroe	La Porte	Rosenberg
Deer Park	Lake Jackson	Sugar Land
Friendswood	League City	Texas City
Galveston	Missouri City	
Houston	Pasadena	

Home Rule Cities

Alvin	Hitchcock	Sealy
Angleton	Humble	Stafford
Bay City	San Jacinto	Sweeny
Bellaire	Jersey Village	Tomball
Cleveland	Katy	Webster
Clute	La Marque	West University Place
Dayton	Liberty	Wharton
Dickinson	Manvel	Willis
El Campo	Nassau Bay	
Freeport	Palacios	
Galena Park	Santa Fe	
Hempstead	Seabrook	

General Law Cities

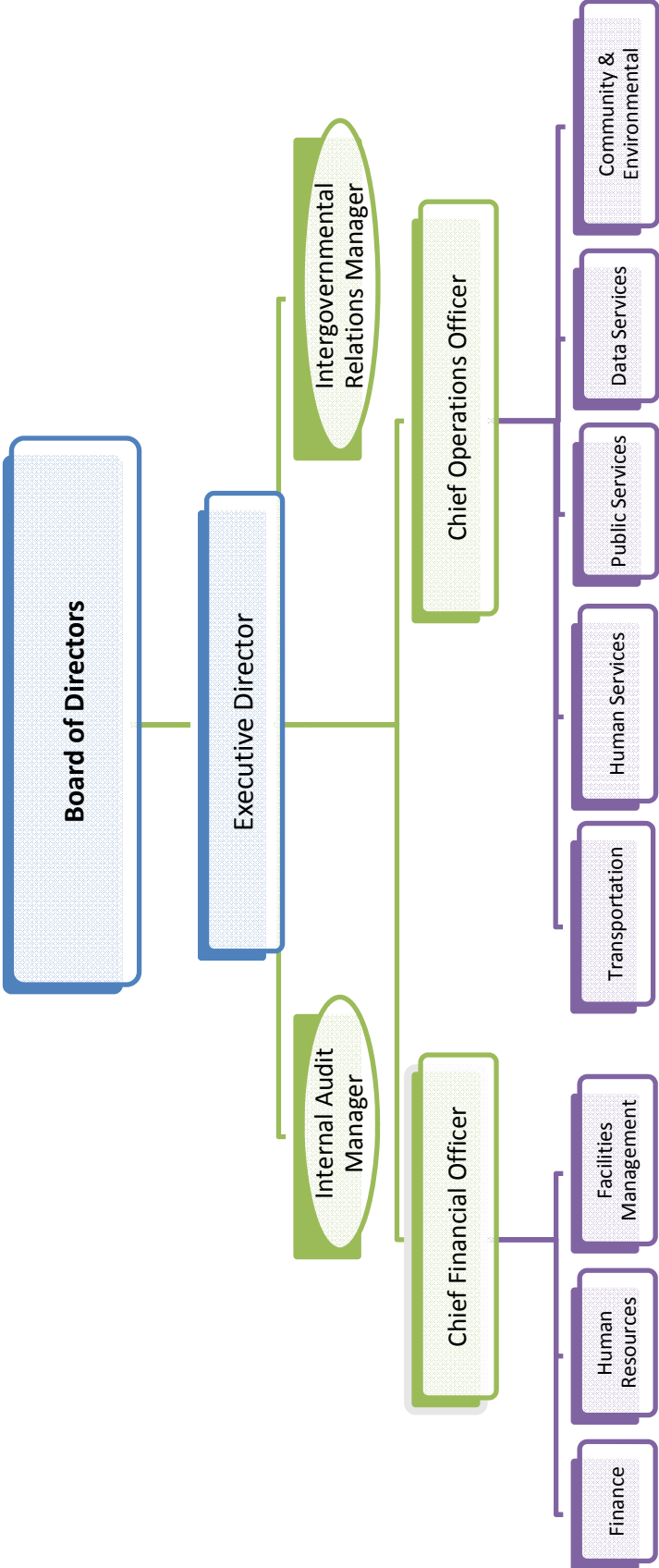
Ahanuac	Eagle Lake	Kendleton
Arcola	East Bernard	Magnolia
Bayou Vista	El Lago	Meadows Place
Beach City	Fulshear	Mont Belvieu
Bellville	Hedwig Village	Morgan's Point
Brazoria	Hempstead	Needville
Brookshire	Hillcrest Village	New Waverly

Brookside Village	Holiday Lakes	Oak Ridge North
Bunker Hill Village	Hunters Creek Village	Old River Winfree
Clear Lake Shores	Iowa Colony	Oyster Creek
Columbus	Jamaica Beach	Panorama Village
Daisetta	Jones Creek	Pattison
Danbury	Kemah	Tiki Island
Piney Point Village	South Houston	Waller
Prairie View	Southside place	Wallis
Richmond	Splendora	Weimar
Richwood	Spring Valley	West Columbus
Riverside	Stagecoach	Weston Lakes
San Felipe	Surfside Beach	
Shenandoah	Taylor Lake Village	
Shoreacres	Thompsons	

Independent School Districts

Alief ISD	Hempstead ISD	Needville ISD
Columbia-Brazoria ISD	Hitchcock ISD	Pearland ISD
Deer Park ISD	Huntsville ISD	
Fort Bend ISD	Magnolia ISD	

Houston-Galveston Area Council



Financial Section



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Houston-Galveston Area Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Houston-Galveston Area Council (the "Council"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Council'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 from 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 the Council'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 the Council'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.

To the Board of Directors
Houston-Galveston Area Council

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Council, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 17 to 23 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 the Council's basic financial statements. The introductory and statistical sections, and the Supplemental Information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal and State awards is also presented for purposes of additional analysis as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations and the State of Texas Uniform Grant Management Standards and is also not a required part of the basic financial statements.

The Supplemental Information and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates 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 Supplemental Information and the Schedules of Expenditures of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Board of Directors
Houston-Galveston Area Council

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 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 July 7, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Council's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
July 7, 2015

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Management's Discussion and Analysis

The following is a narrative overview and analysis of the financial activities of the Houston-Galveston Area Council ("H-GAC") for the fiscal year ended December 31, 2014. This analysis is prepared by the Finance department of the H-GAC and is intended to expand the reader's understanding of the attached financial statements and the effect of certain events on those financial statements.

Financial Highlights

- The assets of H-GAC exceed its liabilities by \$27,396,605 all of which is available to meet the Council's ongoing obligations to local governments and creditors.
- H-GAC's net position increased by \$2,821,901 during the fiscal year ended December 31, 2014.
- At the end of the fiscal year, the unrestricted fund balance for the general fund was \$8,817,921.

Overview of the Financial Statements

The H-GAC financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes additional supplementary information that is not a required part of the financial statements themselves.

Government-wide financial statements. Included in this report are the Statement of Net Position and the Statement of Activities. These statements present the results of operation on a comprehensive basis utilizing the full accrual accounting methodology. This methodology requires that changes in net position be reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the H-GAC that are principally supported by grants (governmental activities) from other functions such as the Cooperative Purchasing, the Energy Purchasing Corporation, and the Local Development Corporation activities that are supported by user fees (business-type activities). The governmental activities include the activities of the general government, general government overhead, and all grant related activities. The business-type activities include the Cooperative Purchasing program. The Energy Purchasing Corporation, Gulf Coast Economic Development Corporation and the Local Development Corporation are presented as separate component units to the H-GAC because their governing bodies consist of members of H-GAC's Board of Directors or appointed by H-GAC's Board of Directors.

The statement of net position presents information on all of H-GAC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the H-GAC is improving or deteriorating. The statement of activities presents information showing how the government's net position changed during the most recent fiscal year.

Fund financial statements. A fund is a grouping of related accounts that have been segregated to maintain control over resources and achieve specific objectives. H-GAC uses fund accounting to identify resources that have specific compliance requirements, such as grant programs, and demonstrate adherence to finance-related legal requirements. H-GAC maintains three fund types: 1) governmental funds, 2) proprietary funds, and 3) fiduciary funds.

Governmental Funds. Governmental funds account for the same functions reported as governmental activities in the government-wide financial statements, except that they are presented on the modified accrual basis of accounting which requires that revenues be recorded when measurable and available. Expenditures are recorded when the services or goods are received and the liabilities incurred. Thus, the focus of these statements is on the near-term inflows and outflows of spendable resources and the balances of spendable resources available at the end of the year.

Comparison between the governmental activities in the government-wide financial statements and the information presented in the governmental funds statements allows the reader to 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.

H-GAC maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, the grant fund, and the regional excellence corporation which is a blended component unit of the governmental funds.

H-GAC adopts an annual budget for its general fund and component units in December of each year. Grant fund budgets are reviewed and approved by the Board of Directors within the context of the annual budget. Throughout the year the budget is amended as grant funds become available or lapse. Although the budgets are reviewed and approved by H-GAC's Board, they are not considered legally adopted budgets or appropriations.

Proprietary Funds. H-GAC had only one type of proprietary fund during fiscal year 2014. The Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Unlike governmental funds, enterprise funds are maintained on the full accrual basis of accounting as are the government-wide financial statements, therefore, no reconciliation between the statements is necessary. H-GAC records the activities of its Cooperative Purchasing program in the enterprise fund.

Fiduciary Funds. The fiduciary funds administered by H-GAC consist of the 401K pension trust fund for H-GAC's employee retirement plan and an agency fund for the Air Emission Reduction Credit Organization ("AERCO"). AERCO was created to promote the coexistence of air quality improvement and economic development within the region. H-GAC serves as the custodian of funds received due to air emission credits and uses those funds to offset new emission requirements for major industrial modifications, economic development, or to reduce emissions to meet federal reduction requirements. This fund, like the proprietary funds, is presented on the full accrual basis of accounting. Fiduciary funds

are not presented in the government-wide financial statements as these funds are restricted and are not available to support the programs of H-GAC. The pension plan is audited separately and a copy of this report is available by requesting the same from H-GAC, P.O. Box 22777, Houston, TX 77227-2777.

Notes to the financial statements. The notes to the financial statements are an integral part of understanding both the government-wide financial statements and the fund financial statements.

Government-Wide Financial Analysis

Statement of Net Position

H-GAC's assets exceed liabilities by \$27,396,605 at the close of the most recent fiscal year, 2014 which is an increase over 2013. Approximately 6.6% of the Council's net position is capital investments. Investment in capital assets was part of the reason for the increase in net position for the year. These capital investments are within the office facilities of H-GAC to provide service and do not represent funds available for future spending. Additional increases to net position came from increased revenues in the business-type activities due to greater volume in the Cooperative Purchasing program from the prior year. There was restricted net position of \$7,714,688 at the end of the fiscal year. The balance of unrestricted net position in 2014 of \$17,869,342 may be used to meet H-GAC's ongoing obligations.

HOUSTON-GALVESTON AREA COUNCIL CONDENSED STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 52,691,054	\$ 43,551,858	\$ 9,838,911	\$ 8,565,850	\$ 62,529,965	\$ 52,117,708
Capital assets, net	1,832,291	890,139	39,699	78,538	1,871,990	968,677
Total Assets	54,523,345	44,441,997	9,878,610	8,644,388	64,401,955	53,086,385
Liabilities						
Current and other liabilities	36,812,422	28,242,885	47,816	124,646	36,860,238	28,367,531
Long-term liabilities	145,112	144,151			145,112	144,151
Total Liabilities	36,957,534	28,387,036	47,816	124,646	37,005,350	28,511,682
Net Position						
Net Investment in Capital Asset:	1,772,876	873,153	39,699	78,538	1,812,575	951,691
Restricted for:						
EPA RLF Program	7,599,714	7,749,761			7,599,714	7,749,761
Regional Excellence Corporati	114,974	81,896			114,974	81,896
Unrestricted	8,078,247	7,350,151	9,791,095	8,441,204	17,869,342	15,791,355
Total net position	\$ 17,565,811	\$ 16,054,961	\$ 9,830,794	\$ 8,519,742	\$ 27,396,605	\$ 24,574,703

Statement of Activities

H-GAC's net position was increased by \$2,821,901 for the year. This reflects an increase in net position for governmental activities of \$1,510,849 and an increase in net position in business-type activities of \$1,311,052. The increase in net position in governmental activities represents a 9.4% increase of net position for governmental activities and the change in net position in the business-type activities represents a 15.4% increase in net position for this activity. Overall, H-GAC increased net position by 11.5%. Key elements of the increase along with percentage analysis are as follows:

HOUSTON-GALVESTON AREA COUNCIL CHANGE IN NET POSITION

	Governmental		Business-type		Total		Percent	
	Activities		Activities					
	2014	2013	2014	2013	2014	2013	2014	2013
Program revenues								
Charges for services	\$ 2,689,228	\$ 1,087,428	\$ 4,843,865	\$ 3,951,174	\$ 7,533,093	\$ 5,038,602	2.91%	2.02%
Operating grants and contributions	249,980,261	243,745,694			249,980,261	243,745,694	96.47%	97.83%
General revenues:								
Interest income	15,741	158,039			15,741	158,039	0.01%	0.06%
Other income	1,606,138	217,856			1,606,138	217,856	0.62%	0.09%
Transfer in	500,000		(500,000)		-	-	0.00%	0.00%
Total revenues	254,791,368	245,209,017	4,343,865	3,951,174	259,135,233	249,160,191	100.00%	100.00%
Expenses								
General government	2,931,014	934,780			2,931,014	934,780	1.14%	0.38%
Workforce programs	183,974,199	185,089,084			183,974,199	185,089,084	71.78%	75.31%
Transportation	28,705,403	33,229,456			28,705,403	33,229,456	11.20%	13.52%
Community and environmental	22,778,574	10,310,254			22,778,574	10,310,254	8.89%	4.19%
Criminal justice	947,483	1,027,540			947,483	1,027,540	0.37%	0.42%
Emergency communications	4,881,827	3,242,332			4,881,827	3,242,332	1.90%	1.32%
Aging services	8,975,078	8,774,680			8,975,078	8,774,680	3.50%	3.57%
Regional excellence corporation	86,941	188,721			86,941	188,721	0.03%	0.08%
Cooperative purchasing			3,032,813	2,978,910	3,032,813	2,978,910	1.18%	1.21%
Total expenses	253,280,519	242,796,847	3,032,813	2,978,910	256,313,332	245,775,757	100.00%	100.00%
Change in net position	1,510,849	2,412,170	1,311,052	972,264	2,821,901	3,384,434		
Net position-beginning of year	16,054,962	13,642,792	8,519,742	7,547,478	24,574,704	21,190,271		
Net position-end of year	\$ 17,565,811	\$ 16,054,962	\$ 9,830,794	\$ 8,519,742	\$ 27,396,605	\$ 24,574,705		

The H-GAC operates primarily from grant and contract revenues; therefore, increases in expenses closely parallel increases in grant and contract funding for services.

Business-type activities

The Cooperative Purchasing program was established in 1973 to assist local governments in their purchasing and procurement needs. Through aggregation of individual purchases into a single procurement, volume discounts can be achieved.

The program is influenced by market conditions. The Cooperative Purchasing program deals primarily in the acquisition of capital assets. In 2013 and 2014, revenue in this program was \$3,951,174 and \$4,843,865 respectively. During the year, operating expenses for the program increased 1.8% and revenues increased 22.6%. The combined result was reflected in an increase to net assets of \$1,311,052 or 15.4%. By comparison, the increase in 2013 was \$972,264 or 12.9%.

Business-Type Expenses	2014 Amount	2013 Amount	Increase (Decrease) from 2013	Percentage Increase (Decrease)
Personnel and benefits	\$ 2,361,378	\$2,139,429	\$ 221,949	10.4%
Consultant and contract services	107,979	233,433	(125,454)	(53.7%)
Equipment rental and leases	14,779	95	14,684	99.5%
Lease of office space	167,051	136,293	30,758	22.6%
Travel	63,589	38,125	25,464	66.8%
Depreciation	38,839	38,839	0	0%
Other	<u>279,198</u>	<u>392,696</u>	<u>(113,498)</u>	<u>(28.9%)</u>
Total expenses	<u>\$3,032,813</u>	<u>\$2,978,910</u>	<u>\$ 53,903</u>	<u>1.8%</u>

Financial Analysis of the Government's Funds

As stated previously, H-GAC uses fund accounting to ensure and demonstrate compliance with legal requirements imposed by grantors. The following is a discussion of the funds used at H-GAC and key elements in each fund.

Governmental Funds

Governmental funds are presented on the modified accrual basis of accounting. This measurement focus emphasizes the inflows, outflows and available resources in the near term. This information is desirable in evaluating H-GAC's financing requirements. Specifically, the unrestricted balance represents H-GAC's available resources at the end of the fiscal year.

H-GAC's fund balance for fiscal year 2014 is \$8,934,225. Included in this fund balance is \$116,304 which has been identified for prepaid items and is nonspendable. The balance of \$8,817,921 is available for use at H-GAC's discretion.

The general fund of H-GAC was increased by \$692,171. The general fund is the primary operating fund for H-GAC. The grant fund, used to account for all grant programs and other revenues whose use is restricted for a specific purpose had a fund balance of \$7,599,714 at the end of the year.

Also included in the governmental funds is the Regional Excellence Corporation, a blended component unit of the H-GAC established in 2004 to support programs and initiatives of the organization through private sector contributions. All board members of the Corporation serve in a dual capacity as both a board member of H-GAC and a board member of the corporation. In 2014 the corporation had cash and pledged contributions of \$120,020 and expenditures of \$86,941. The corporation's bylaws restrict the use of these funds.

Proprietary Funds

The proprietary fund of H-GAC is composed of the Cooperative Purchasing enterprise fund. As mentioned previously, the measurement focus for the fund statements is identical to the government-wide statements. It is the policy of H-GAC to associate net position to the activities generating the net position. The remaining net position is available to meet future needs as directed by the Board of Directors.

Capital Asset Administration

H-GAC's investment in capital assets for both governmental and business-type activities amount to \$968,670 and \$1,871,990 (net of depreciation) for the fiscal years ended December 31, 2013 and 2014 respectively. This investment in capital assets includes equipment, furniture, and fixtures. Additional information on H-GAC's capital assets and capital leases can be found in footnote 6 and 8, respectively, of this report. H-GAC does not own any real property.

During 2014, H-GAC acquired a variety of assets. The Council has a capitalization threshold of \$5,000, in accordance with federal requirements. The following table identifies the additions and retirements of depreciable assets for both the governmental and business-type activities. Beginning balances are net of depreciation. The accumulated depreciation column below reflects the net affect of depreciation expense for the year and the recovery of depreciation upon retirement of assets.

HOUSTON-GALVESTON AREA COUNCIL CAPITAL ASSET ANALYSIS

	Beginning Balance	Additions	Retirements	Accumulated Depreciation	Ending Balance
Governmental Activities					
Equipment, furniture and fixtures	\$890,132	\$1,415,761	\$0	\$(473,602)	\$1,832,291
Business-type Activities					
Equipment, furniture and fixtures	\$78,538	\$0	\$0	\$(38,839)	\$39,699
Total	\$968,670	\$1,415,761	\$0	\$(512,441)	\$1,871,990

Debt Administration

Debt considered a liability of governmental activities consists of capital lease obligations and compensated absences. Debt balances related to capital leases in 2014 were \$59,415. Compensated absences decreased by \$35,942 in 2014, finishing the year with an ending balance of \$855,978. Further information on the Council's debt can be found in note 2 to the financial statements.

Economic Factors and Next Year's Budget

- H-GAC membership dues are based on the federal 10-year census and are calculated on population. For FY2015 the per-capita membership revenue is estimated at \$337,000. This is consistent with the budget for 2015.
- H-GAC increased estimated revenues and corresponding expenses by \$62,371,359 for 2015. The budget reflects increases mainly in Workforce and Community & Environmental programs of \$25,130,771 and \$34,461,513 respectively. The increases in Workforce programs is attributable to the new Adult Education and Literacy program funded from the Texas Workforce Commission which provides literacy instruction, basic education, and integrated basic and occupational skills training for adults throughout the region. The increase in the Community &

Environmental program is attributable to the final phase of funds received for housing and disaster recovery due to Hurricane Ike. The Data Service program also projects an increase of \$2,060,112 because of the additional funding for the 9-1-1 program in 2015.

All of these factors were considered in preparing the budget for the 2015 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the H-GAC's finances for those with an interest in the Council's finances. Questions or comments regarding this report should be directed to Nancy Haussler, Chief Financial Officer, Houston-Galveston Area Council, P.O. Box 22777, Houston, TX 77227-2777.

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**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Primary Government		Component Units				
	Governmental Activities	Business-type Activities	Total	Gulf Coast			Total
				Energy Purchasing Corporation	Economic Development Corporation	Local Development Corporation	
ASSETS							
Cash and cash equivalents	\$ 25,547,668	\$ 25,547,668	\$ 25,547,668	\$ 70,939	\$ 269,094	\$ 2,702,499	\$ 3,042,532
Investments	4,068,985		4,068,985			304,990	304,990
Receivables, net	25,125,139	\$ 2,481,195	27,606,334		15,248	46,694	61,942
Notes Receivable	5,004,567		5,004,567		1,467,758		1,467,758
Due from Component Units	186,107		186,107				
Internal balances	(7,357,716)	7,357,716	-				
Prepaid expenses	116,304		116,304				
Capital assets, net	1,832,291	39,699	1,871,990				
Total Assets	<u>54,523,345</u>	<u>9,878,610</u>	<u>64,401,955</u>	<u>70,939</u>	<u>1,752,100</u>	<u>3,054,183</u>	<u>4,877,222</u>
LIABILITIES							
Accounts payable and accrued expenses	2,752,528	27,728	2,780,256				
Unearned revenues	10,521,282	20,088	10,541,370				
Due to grantee agencies	22,768,331		22,768,331				
Due to primary government				14,477	32,759	138,871	186,107
Long Term Liabilities							
Due within one year	753,974		753,974				
Due more than one year	102,004		102,004				
Obligation of capital leases:							
Due within one year	16,307		16,307				
Due more than one year	43,108		43,108				
Total Liabilities	<u>36,957,534</u>	<u>47,816</u>	<u>37,005,350</u>	<u>14,477</u>	<u>32,759</u>	<u>138,871</u>	<u>186,107</u>
NET POSITION							
Net investment in capital assets	1,772,876	39,699	1,812,575				
Restricted for:							
EPA RLF Program	7,599,714		7,599,714				
Regional Excellence Corporation	114,974		114,974				
EDA RLF Program					1,719,341	2,915,312	1,719,341
Local Development Corporation							
Unrestricted	8,078,247	9,791,095	17,869,342				
Total Net Position	<u>\$ 17,565,811</u>	<u>\$ 9,830,794</u>	<u>\$ 27,396,605</u>	<u>\$ 56,462</u>	<u>\$ 1,719,341</u>	<u>\$ 2,915,312</u>	<u>\$ 4,691,115</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Component Unit					
	Expenses	Indirect Expense Allocation	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	Energy Purchasing Corporation	Economic Development Corporation	Local Development Corporation
Primary government:										
Governmental activities:										
General government	\$ 4,877,722	\$ (1,946,708)	\$ 2,689,228	\$ 183,899,072	\$ (241,786)		\$ (241,786)			
Workforce programs	183,619,089	355,110		\$ 27,773,332	(75,127)		(75,127)			
Transportation	27,954,656	750,747		23,535,637	(932,071)		(932,071)			
Community and environmental	22,483,149	295,425		968,498	757,063		757,063			
Criminal justice	886,254	61,229		4,883,395	21,015		21,015			
Emergency communications	4,807,045	74,782		8,800,307	(174,771)		(174,771)			
Aging services	8,825,737	149,341		120,020	33,079		33,079			
Regional Excellence Corporation	86,941									
Total governmental activities	<u>253,540,593</u>	<u>(260,074)</u>	<u>2,689,228</u>	<u>249,980,261</u>	<u>(611,030)</u>		<u>(611,030)</u>			
Business-type activities:										
Cooperative purchasing	2,772,739	260,074	4,843,865			\$ 1,811,052	\$ 1,811,052			
Total business-type activities	<u>2,772,739</u>	<u>260,074</u>	<u>4,843,865</u>			<u>1,811,052</u>	<u>1,811,052</u>			
Total primary government	<u>\$ 256,313,332</u>	<u>\$ -</u>	<u>\$ 7,533,093</u>	<u>\$ 249,980,261</u>	<u>(611,030)</u>		<u>1,200,022</u>			
Component units:										
Energy Purchasing Corporation	113,348		197,408					\$ 84,060		
Gulf Coast Economic Development Corporation	216,554		883,781	40,673					(175,881)	
Local Development Corporation	899,565		1,081,189	40,673						\$ (15,785)
Total component units	<u>\$ 1,229,467</u>		<u>\$ 1,081,189</u>	<u>\$ 40,673</u>				<u>\$ 84,060</u>	<u>\$ (175,881)</u>	<u>\$ (15,785)</u>
General revenues:										
Interest income					15,741		15,741			
Miscellaneous income					1,606,138		1,606,138			
Transfers					500,000		500,000			
Total general revenues and transfers					2,121,879		2,121,879			
Change in net position					1,510,849		1,510,849	84,060		(15,785)
Net position - beginning					16,054,962		16,054,962	(27,598)		2,931,099
Net position - ending					\$ 17,565,811		\$ 17,565,811	\$ 56,462	\$ 1,719,341	\$ 2,915,314

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

ASSETS	General	Grant Fund	Regional Excellence Corporation	Total Governmental Funds
Cash and cash equivalents	\$ 21,085,301	\$ 4,340,281	\$ 122,086	\$ 25,547,668
Investments	4,068,985			4,068,985
Receivables	1,367,217	23,731,137		25,098,354
Due from other funds	1,404,722	10,651,535		12,056,257
Due from component unit	212,892			212,892
Notes Receivable		5,004,567		5,004,567
Prepaid items	116,304			116,304
Total assets	<u>\$ 28,255,421</u>	<u>\$ 43,727,520</u>	<u>\$ 122,086</u>	<u>\$ 72,105,027</u>
 LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	686,746	2,058,670	7,112	2,752,528
Unearned revenue	125,199	10,396,083		10,521,282
Due to grantee agencies		22,768,331		22,768,331
Due to other funds	18,509,251	904,722		19,413,973
Total liabilities	<u>19,321,196</u>	<u>36,127,806</u>	<u>7,112</u>	<u>55,456,114</u>
 Fund balance-				
Unassigned	8,817,921			8,817,921
Nonspendable	116,304			116,304
Restricted for:				
EPA RLF Program		7,599,714		7,599,714
Regional Excellence Corporation			114,974	114,974
Total fund balance	<u>8,934,225</u>	<u>7,599,714</u>	<u>114,974</u>	<u>16,648,913</u>
Total liabilities and fund balance	<u>\$ 28,255,421</u>	<u>\$ 43,727,520</u>	<u>\$ 122,086</u>	<u>\$ 72,105,027</u>

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,832,291
Compensated absences of governmental activities are not due and payable in the current period and, therefore, are not reported in the funds	(855,978)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds-capital leases	<u>(59,415)</u>
Net position of governmental activities	<u>\$ 17,565,811</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Grant Fund</u>	<u>Regional Excellence Corporation</u>	<u>Total Governmental Funds</u>
Revenues				
Interest income	\$ 15,741			\$ 15,741
Membership dues	402,918			402,918
Interlocal contracts	1,616,261			1,616,261
Data services and imaging	670,050			670,050
Miscellaneous income	1,606,138			1,606,138
From grantor agencies		\$ 249,860,241	\$ 120,020	249,980,261
Total revenues	<u>4,311,108</u>	<u>249,860,241</u>	<u>120,020</u>	<u>254,291,369</u>
Expenditures				
Current:				
General government	2,955,078			2,955,078
Workforce programs		183,838,987		183,838,987
Transportation		28,568,435		28,568,435
Community and environmental		22,704,646		22,704,646
Criminal justice/Homeland security		957,655		957,655
Emergency communications		4,868,627		4,868,627
Aging services		8,937,602		8,937,602
Regional Excellence Corporation			86,941	86,941
Capital outlay:				
General government	1,339,506			1,339,506
Debt service:				
Principal	13,206			13,206
Interest	1,125			1,125
Total expenditures	<u>4,308,915</u>	<u>249,875,952</u>	<u>86,941</u>	<u>254,271,808</u>
Excess (deficiency) of revenues over expenditures	<u>2,193</u>	<u>(15,711)</u>	<u>33,079</u>	<u>19,561</u>
Other Financing Sources (Uses)				
Transfers in (out)	634,336	(134,336)		500,000
Proceeds from Capital Lease	55,642			55,642
Total other financing sources & uses	<u>689,978</u>	<u>(134,336)</u>	<u>-</u>	<u>555,642</u>
Change in fund balance	692,171	(150,047)	33,079	575,203
Fund balance - beginning	<u>8,242,054</u>	<u>7,749,761</u>	<u>81,895</u>	<u>16,073,710</u>
Fund balance - ending	<u>\$ 8,934,225</u>	<u>\$ 7,599,714</u>	<u>\$ 114,974</u>	<u>\$ 16,648,913</u>

See accompanying notes to the financial statements

HOUSTON-GALVESTON AREA COUNCIL
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2014

Net change in fund balances-total governmental funds \$ 575,203

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	1,415,756
Depreciation expense	<u>(473,602)</u>
Excess of capital outlay over depreciation expense	<u>942,154</u>

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

This activity consists of -

Decrease in compensated absences	<u>35,928</u>
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Principal payment for capital lease in 2014	<u>13,206</u>
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The Capital lease is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	<u>(55,642)</u>
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Change in net position of governmental activities	<u><u>\$ 1,510,849</u></u>
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See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	<u>Cooperative Purchasing</u>
ASSETS	
Current assets	
Accounts receivable	\$ 2,481,195
Due from general fund	<u>7,357,716</u>
Total current assets	<u>9,838,911</u>
Noncurrent assets	
Property & equipment	194,196
Less accumulated depreciation	<u>(154,497)</u>
Total noncurrent assets	<u>39,699</u>
Total assets	<u>9,878,610</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	27,728
Unearned revenues	<u>20,088</u>
Total current liabilities	<u>47,816</u>
Total liabilities	<u>47,816</u>
NET POSITION	
Investment in capital assets	39,699
Unrestricted	<u>9,791,095</u>
Total net position	<u>\$ 9,830,794</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	<u>Cooperative Purchasing</u>
REVENUES	
Charges for services	\$ 4,843,865
Total revenues	<u>4,843,865</u>
OPERATING EXPENSES	
Personnel and benefits	2,361,378
Consultant and contract services	107,979
Equipment rental and leases	14,779
Lease of office space	167,051
Travel	63,589
Depreciation	38,839
Other	279,198
Total expenses	<u>3,032,813</u>
Operating Income	1,811,052
Transfers	<u>(500,000)</u>
Change in net position	1,311,052
Net position - beginning	<u>8,519,742</u>
Net position - ending	<u>\$ 9,830,794</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	<u>Cooperative Purchasing</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,556,465
Cash payments to employees for services	(2,361,378)
Cash payments to suppliers for goods and services	(170,470)
Cash payments for operating expenses	(524,617)
Cash provided (used) by operating activities	<u>500,000</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to general fund	
Net cash used by noncapital financing activities	<u>(500,000)</u>
	<u>\$ (500,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 1,811,052
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	38,839
Change in assets and liabilities:	
Decrease (increase) in customer receivable	(219,468)
Decrease (increase) in interfund receivable	(1,053,593)
Increase (decrease) in accounts payable	(62,491)
Increase (decrease) in unearned revenue	(14,339)
Net cash provided (used) by operating activities	<u>\$ 500,000</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014**

	<u>Retirement Plan 2014</u>	<u>Agency Fund Area Emission Reduction Credit Organization 2014</u>
ASSETS		
Cash		\$ 1,184,101
Investments- at fair value:		
Mutual funds	\$ 24,172,284	
Money market funds	3,665,961	
Participant loans	818,923	
Total investments	<u>28,657,168</u>	
 Total assets	 <u>28,657,168</u>	 <u>1,184,101</u>
 LIABILITIES		
Due to TCEQ		1,184,101
Employee forfeitures due to employer	2,984	
Total liabilities	<u>2,984</u>	<u>\$ 1,184,101</u>
 NET POSITION HELD IN TRUST FOR PENSION BENEFITS	 <u>\$ 28,654,184</u>	

See accompanying notes to financial statements

**RETIREMENT PLAN FOR THE EMPLOYEES OF
HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF CHANGES IN POSITION
FIDUCIARY FUNDS
YEARS ENDED DECEMBER 31, 2014**

	<u>2014</u>
ADDITIONS	
Contributions:	
Participants	\$ 961,459
Employer	907,377
Total contributions	<u>1,868,836</u>
Investment earnings:	
Net appreciation in the fair value of investments	195,920
Interest and dividends	1,585,231
Total net investment earnings	<u>1,781,151</u>
Total additions	<u>3,649,987</u>
DEDUCTIONS	
Benefit payments	2,327,288
Administrative expenses	2,814
Total deductions	<u>2,330,102</u>
Change in net position	1,319,885
Net position - beginning	<u>27,334,299</u>
Net position - ending	<u><u>\$ 28,654,184</u></u>

See accompanying notes to financial statements.

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
DECEMBER 31, 2014**

	Balance 2014
ASSETS	
Cash	\$ 1,184,101
Total Asset	<u>\$ 1,184,101</u>
LIABILITIES	
Due to TCEQ	\$ 1,184,101
Total liabilities	<u>\$ 1,184,101</u>

HOUSTON-GALVESTON AREA COUNCIL

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2014

1. REPORTING ENTITY

The Houston-Galveston Area Council (“H-GAC”) is a voluntary association of local governments that administers planning and action programs from various federal, state, and local agencies for the benefit of citizens in a 13-county region in southeast Texas. H-GAC is governed by a 35-member Board of Directors (the “Board”) which has governance responsibilities over all activities of the organization. Members of the Board are selected to serve by elected officials from the various governmental entities belonging to H-GAC. The Board has the authority to make decisions and appoint administrators and managers. H-GAC is not included in any other governmental “reporting entity” as defined by the Government of Accounting Standards Board (“GASB”) Statement No. 14, “The Financial Reporting Entity.” H-GAC is a political subdivision of the State of Texas, created pursuant to state enabling legislation.

H-GAC’s financial statements include the accounts of all H-GAC functions and activities, including four component units, the H-GAC Energy Purchasing Corporation, the Houston-Galveston Local Development Corporation, the Gulf Coast Economic Development Corporation and the Corporation for Regional Excellence. Complete financial statements for each of the individual component units may be obtained at H-GAC’s administrative offices.

The accompanying financial statements present H-GAC and its component units.

Blended Component Unit: The Corporation for Regional Excellence was established by H-GAC in 2004. The purpose of the organization is to receive contributions that support the programs and services of H-GAC from entities that will only contribute to 501 (C) (3) organizations. All board members of the Corporation serve in a dual capacity as both a board member of H-GAC and a board member of the corporation. The Corporation is reported as a Special Revenue Fund.

Discretely Presented Component Units: The H-GAC Energy Purchasing Corporation's purpose is to serve as a licensed aggregator of electricity for local governments in the state of Texas by negotiating and administering electricity service contracts. Local governments pay an administrative fee to participate in the contracts. The Board of Directors is comprised of elected officials selected by the H-GAC Board of Directors who annually approve its budgets and obligations.

The Houston-Galveston Area Local Development Corporation ("LDC") was established to further economic development and social welfare by promoting and assisting growth and development of business concerns in the region. The Corporation is a certified development company by the U.S. Government Small Business Administration and assists small businesses in securing loans for the purpose of construction, conversion, or expansion, including the acquisition of land, existing buildings and leasehold improvements. The corporation receives a residual fee for its services on all funded loans. The twenty-seven member Board of Directors is comprised of representatives from local government, lending institutions and private business organizations selected by the H-GAC Board of Directors. The Corporation's bylaws further state that all assets of the Corporation revert to the Houston-Galveston Area Council upon dissolution. Additionally, in acknowledgment of the Council's involvement with the Corporation, the Corporation remits a management fee to the Houston-Galveston Area Council.

The H-GAC Gulf Coast Economic Development Corporation ("EDC"), a 501(C)(3) Corporation, was established in 1988 to address the regional needs of distressed economic growth areas. The EDC originally received economic development grants from the Federal Economic Development Administration to promote coordination among local economic development efforts on a region wide basis. The 28 member board is comprised of county government and city government appointees as well as private sector appointees nominated by HGAC. Developing plans that include the key strategies of promoting economic growth, increasing employment opportunities, and developing a regional Comprehensive Economic Development Strategy is the primary mission of the organization. In 2010, the EDC received a revolving loan grant from the EDA to further the economic development of the distressed areas of the region. The Houston-Galveston Area Council has primary responsibility for the Corporation's assets including its cash assets and the use of those assets benefits the constituency that HGAC serves. Additionally, the EDC has signed a management agreement with the HGAC that conveys management of the EDC financial records to H-GAC. Finally, the agreement also stipulates that any financial match requirements imposed by the federal grantor will be

provided by H-GAC.

Since H-GAC receives funding from local, state and federal government sources, it must comply with the requirements of these funding sources.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: Government-wide and Fund Financial Statements - The government-wide financial statements consist of the statement of net position and the statement of activities. These statements exclude inter-fund activity, and report information on all of the non-fiduciary activities of the primary government. The statements segregate governmental activities from business-type activities. Governmental activities are normally supported by intergovernmental revenues and grants while business-type activities are supported by service fees or sales that are intended to recover all or a significant portion of their costs.

The statement of activities compares the direct expenses of a given function with the corresponding 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 function or segment and 2) contracts, grants and contributions that are restricted to meeting the operational requirement of a particular function or segment. Items not classified as program revenues are reported as general revenues.

Additional financial statements are presented for governmental, proprietary and fiduciary funds, although fiduciary funds are not included in the government-wide financial statements. These statements are organized on the basis of funds that function as a separate entity with their own self-balancing accounts that comprise their assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Resources are accounted for in individual funds based upon the purposes for which they are to be spent and the restrictions, if any, on the spending activities.

The H-GAC reports the following major governmental funds:

The *General Fund* is H-GAC's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The *Grant Fund* is a special revenue fund used to account for grant proceeds provided by various grantor agencies and is restricted in use by the awarding entity.

The *Regional Excellence Corporation* is a blended component unit established to support programs and initiatives of the H-GAC. The Corporation's bylaws restrict the use of these funds.

The H-GAC reports the following major enterprise fund:

The *Cooperative Purchasing* fund is used to account for the administrative fees derived from the assistance provided to other governments in acquiring capital assets and supplies.

Included in this report but not as part of the government-wide financial statements are the fiduciary fund statements for the Employee Retirement Plan Trust Fund and the Air Emission Reduction Credit Organization ("AERCO") agency fund. The retirement plan trust fund accounts for the 401K pension plan for H-GAC employees. The AERCO promotes the coexistence of air quality improvement and economic development within the H-GAC region.

Basis of Accounting - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, H-GAC considers revenues to be available if they are collected within 90 days of the end of the fiscal period. Revenues susceptible to accrual are interest income, membership dues, interlocal contracts, and revenues from grantor agencies. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. However, expenditures related to compensated absences are recorded only when payment is due.

The cooperative purchasing enterprise fund and the retirement plan trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the funds are included on the balance sheet. The accrual basis of accounting is utilized by these funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Net Position Flow Assumptions - Sometimes the Council will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Council's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions - When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Council considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Council considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Fund Balance Classification - The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Council is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Non-spendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

H-GAC's ***major sources of revenues*** are discussed below:

Federal and State Contracts - Revenues are recognized when program expenditures are incurred in accordance with program guidelines. Local matching

may exceed budgeted amounts. Such excess would be used to further fund the applicable program, but does not represent a budget deviation.

Member Government Dues - Member governments are required to pay dues to H-GAC. Dues are determined annually and are recognized as revenues when assessed because they are measurable and are collectible within the current period. Dues are reported in the general fund and transferred to the special revenue funds as needed to meet matching requirements of grantor contracts.

Locally Contributed In-kind Services - Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal funding on various programs. Contributed services are, therefore, reflected as both revenues and expenditures in accordance with legal requirements of the individual contracts. Such services are recorded in the accompanying financial statements at the amount expended by the contributor in providing the matching services, which approximates the fair value of the services at the date of contribution.

Pass-Through and Administrative Fees - The Cooperative Purchasing Program, the Energy Purchasing Corporation, and the Local Development Corporation record revenues in the form of pass-through and administrative fees. H-GAC assists other governments primarily in Texas by providing expertise in acquiring capital assets and supplies and by aggregating the needs of several governments into larger purchases, providing negotiating advantages as well as assisting small businesses with financing and improving economic development.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivery of goods in connection with the fund's principal operations. The principal operating revenues of the Cooperative Purchasing enterprise fund are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources,

represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Council does not have any items that qualify for reporting in either of the above categories in the current fiscal year.

Capital Assets - Capital assets, which include furniture, fixtures, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Council as assets with an initial, individual cost of \$5,000. Such assets are recorded at historical cost, net of accumulated depreciation.

Depreciation is charged to operations over the estimated useful life (generally five years) using the straight-line method. H-GAC has no public domain assets.

Compensated Absences – It is H-GAC’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Council does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay up to a maximum of 240 hours is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Due to the nature of the obligation for accrued vacation, annual requirements to amortize such obligations are not determinable and have not been presented.

Balance			Balance	Due Within
<u>12/31/2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2014</u>	<u>One Year</u>
\$ 891,906	\$ 823,103	\$ 859,031	\$ 855,978	\$ 753,974

Interfund Transfers - Interfund transfers arise from transactions between funds or the distribution of local (general fund) cash resources to grant projects requiring cash match

in accordance with the terms and conditions of the grant contract. Matching funds are derived primarily from H-GAC dues paid by member governments and local in-kind contributions.

Allocation of Employee Benefits and Indirect Costs - H-GAC employee benefits and indirect costs are allocated based upon actual expenditures to all grants in accordance with the Office of Management and Budget (“OMB”) Circular A-87. Employee benefits are allocated to grant projects as a percentage of H-GAC’s labor costs. Indirect costs necessary to sustain overall operations are allocated as a percentage of total direct labor costs and employee benefits charged to grant projects.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash equivalents include highly liquid investments with an original maturity of ninety days or less.

Investments - Investments are recorded at fair value based upon quoted market prices as of year-end.

H-GAC follows GASB Statement No. 40 *Deposit and Investment Risk Disclosures--an amendment of GASB Statement No. 3*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such disclosures as required are reflected in Note 3 to the financial statements.

Prepaid Items - Prepaid items are accounted for under the consumption method.

3. DEPOSITS (CASH) AND INVESTMENTS

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the Council.

In accordance with applicable statutes, the Council has a depository contract with a local bank (depository) providing interest rates to be earned on deposited funds and fixed fees for banking services received. The Council may place funds with the depository in interest and non-interest bearing accounts. Statutes and the depository contract require full security for all funds in the depository institution through federal depository

insurance or a combination of federal depository insurance and acceptable collateral securities and/or an acceptable surety bond. The depository must deliver the collateral securities to the Council or place them with an independent trustee institution. In accordance with Texas statutes, the safekeeping receipts are in the name of the depository with proper indication of pledge of the collateral securities by the depository to secure funds of the Council. The Council must approve all collateral securities pledged and also must approve in writing any changes to the pledged collateral securities.

The Council has adopted a written investment policy regarding the investment of its funds as defined by the PFIA. The PFIA also requires the Council to have independent auditors perform test procedures related to investment practices as provided by the Act. The Council complies with the requirements of the Act and with local policies.

The Council's investment policy permits investment of Council funds in only the following investment types, consistent with the strategies and maturities defined in the policy:

1. Obligations of the United States or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies.
3. Other obligations, the principal of which are unconditionally guaranteed or insured by the State of Texas or the United States.
4. General obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.
5. Certificates of Deposit issued by State and National banks domiciled in the State of Texas the payment of which is insured in full by the Federal Deposit Insurance Corporation.
6. Fully collateralized direct Repurchase Agreements with a defined termination date purchased pursuant to a master contractual agreement which specified the rights and obligations of both parties and which requires that securities involved in the transaction

7. No Load Money Market Mutual Funds and No Load Mutual Funds. To be an allowable investment, money market funds must adhere to a 90-day weighted average maturity. No-load mutual funds with a weighted average maturity of up to 2 years are allowable if they are registered with the Securities and Exchange Commission, invest exclusively in obligations authorized by the Public Funds Investment Act, adhere to the requirements set forth for investment pools and are continuously rated by at least one nationally recognized investment rating firm at not less than AAA or its equivalent. A government may invest no more than 15% of its operating funds (excluding bond proceeds, reserves and debt service funds) in this type of mutual fund.

8. Time deposits in the Council's depositories.

9. Investment pools created to function as money market funds must mark-to-market daily and maintain a market value ratio between .995 and 1.005. These pools must be continuously rated no lower than AAA, AAA-m or an equivalent rating by at least one nationally recognized rating agency.

10. Banker's Acceptances 1) 270 days or fewer, 2) Liquidated in full at maturity, 3) Eligible Federal Reserve Bank collateral, 4) U.S. Bank rated not less than A-1 or P-1.

11. Any combination of the foregoing.

Retirement plan funds are invested among a selection of mutual funds at the discretion of each Plan participant.

Deposit and Investment Amounts

The following schedule presents the Council's cash and investments subject to deposit and investment risk disclosures.

	Cash and CDs	Money Market Mutual Funds	Hybrid Debt/Equity Mutual Funds	Total
Governmental Funds:				
General	\$21,085,301	\$ 4,068,985	\$ -	\$ 25,154,286
Grant Fund	4,340,281	-	-	4,340,281
Regional Excellence Corporation	122,086	-	-	122,086
Total Governmental Funds	25,547,668	4,068,985	-	29,616,653
Fiduciary Funds	\$ 1,184,101	3,665,961	24,172,284	29,022,346
Discretely Presented Component Units:				
Energy Purchasing Corporation	70,939			70,939
Gulf Coast Economic Dev Corp	269,094			269,094
Local Development Corporation	3,007,489	-	-	3,007,489
Total Component Units	3,347,522	-	-	3,347,522
Total Reporting Entity	\$30,079,291	\$ 7,734,946	\$ 24,172,284	\$ 61,986,521

Credit and Interest Rate Risk

At year-end, the Council had the following investments subject to credit and interest rate risk disclosure, under U.S. generally accepted accounting principles, by fund:

	Money Market Mutual Funds	Amount	Weighted Average Maturity (Days)	Credit Rating
General Fund		\$4,068,985	41	Unrated
Fiduciary Fund		3,665,961	52	Unrated

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. As of December 31, 2014, the Council's deposit

balance was fully collateralized with securities held by the pledging financial institution in the Council's name or by FDIC insurance.

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Many intra-fund transactions take place within the finance department of H-GAC, resulting in monies flowing back and forth between funds. For example, H-GAC matching shares for contracts or grants are paid from the General Fund to Special Revenue Funds, while Special Revenue Funds pay indirect charges to the General Fund.

The following is a summary of interfund receivables and payables at December 31, 2014

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$1,404,722	\$18,509,251
Grant Fund	10,651,535	904,722
Enterprise Fund	<u>7,357,716</u>	
Total	<u>\$19,413,973</u>	<u>\$19,413,973</u>

Interfund Transfers

Transfers In

	<u>General</u>	<u>Total</u>
Transfer out:		
Grant Fund	\$134,336	\$134,336
Enterprise Fund	<u>500,000</u>	<u>500,000</u>
Total Transfers	\$634,336	\$634,336

The grant fund transfer reflects the net transfer between the general fund and the special revenue fund for H-GAC match requirements and adjustments due to depreciation of assets which is not reflected on the government wide financial statements.. During 2014, H-GAC transferred \$500,000 from the enterprise fund to the general fund for operational expenses including office space improvements and renovation.

5. RECEIVABLES

Receivables as of the year end for the government's individual major funds and component units, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Grant Fund	Cooperative Purchasing Fund	Energy Purchasing Corporation	Gulf Coast Economic Development Corporation	Local Development Corporation
Due from member government	\$ 8,265	\$ -	\$ -	\$ -	\$ -	\$ -
Advances to subrecipients	-	885,000	-	-	-	-
Data imagery	114,643	-	-	-	-	-
Federal grants receivable	-	401,728	-	-	-	-
State grants receivable	-	22,124,956	-	-	-	-
Local grants receivable	-	315,347	-	-	-	-
Due from customers	197,475	-	2,481,195	-	15,248	46,694
Miscellaneous services	1,046,834	4,106	-	-	-	-
Gross Accounts Receivable	1,367,217	23,731,137	2,481,195	-	15,248	46,694
Less: Allowance for uncollected accounts	-	-	-	-	-	-
Accounts Receivable, Net	<u>\$ 1,367,217</u>	<u>\$ 23,731,137</u>	<u>\$ 2,481,195</u>	<u>\$ -</u>	<u>\$ 15,248</u>	<u>\$ 46,694</u>

All receivables are expected to be collected within one year.

6. CAPITAL ASSETS

A summary of changes in capital assets, which consist solely of office furniture and equipment, follows:

	December 31, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2014</u>
<u>Governmental activities:</u>				
Furniture, fixtures and equipment	\$3,010,531	\$ 1,360,119	\$ -	\$ 4,370,650
Capital leases	504,303	55,642	-	559,945
Less accumulated depreciation	<u>(2,624,702)</u>	<u>(473,602)</u>	<u>-</u>	<u>(3,098,304)</u>
	<u>\$ 890,132</u>	<u>\$ 942,159</u>	<u>\$ -</u>	<u>\$1, 832,291</u>
<u>Business-type activities:</u>				
Furniture, fixtures and equipment	\$ 194,196	\$ -	\$ -	\$ 194,196
Less accumulated depreciation	<u>(115,658)</u>	<u>(38,839)</u>	<u>-</u>	<u>(154,497)</u>
	<u>\$ 78,538</u>	<u>\$ (38,839)</u>	<u>\$ -</u>	<u>\$ 39,699</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities-

General government	\$ 10,739
Workforce programs	135,212
Transportation	136,966
Community and Environmental	73,928
Criminal Justice & Homeland Security	66,078
Emergency Communications	13,200
Aging Services	<u>37,479</u>

Total Governmental Activities 473,602

Business-type activities-

Cooperative purchasing	<u>38,839</u>
	<u>\$ 512,441</u>

7. UNEARNED REVENUE

At December 31, 2014 unearned revenue was comprised of the following:

General Fund:	<u>\$125,199</u>
Grant Fund:	
Solid Waste	\$1,251,381
Texas Emissions Reduction Plan	2,876,185
Low Income Repair Assistance	5,265,203
C&E/Local Contracts	141,385
Transportation/Local Contracts	326,576
Criminal Justice Program	35,653
Workforce Local Program	<u>499,700</u>
Total Grant Fund	<u>\$10,396,083</u>
Enterprise Fund:	
Cooperative Purchasing	<u>\$ 20,088</u>

The General Fund had unearned revenue from prepaid lease and memberships.

During 2014 the cooperative purchasing enterprise fund received remittance from participants in advance of performing services. These remittances, totaling \$20,088, were classified as unearned revenue in the cooperative purchasing enterprise fund.

H-GAC receives an advance of grant funds from the Texas Commission on Environmental Quality to develop and coordinate a solid waste plan for the region. Funds received in excess of expenditures are accounted for as unearned revenue and totaled \$1,251,381 for this program.

Texas Commission on Environmental Quality provided funds for H-GAC to provide grants to eligible projects in nonattainment areas and affected counties within the region. The grants offset the incremental costs associated with reducing emissions of oxides of nitrogen (NOx) from high-emitting internal combustion engines. The balance of the funds available for this purpose that were received and remained unearned at the end of the fiscal year totaled \$2,876,185.

H-GAC contracted with five counties to administer the Low-Income Repair Assistance Program (LIRAP) to help citizens with auto maintenance requirements resulting from increased emission standards. The counties advanced funds to the Council for the implementation of this program in 2014. At year end, the advances in excess of expenditures totaled \$5,265,203.

H-GAC set aside \$35,653 in criminal justice planning money to provide assistance in developing the required Criminal Justice Community plan for Harris County and the other surrounding jurisdictions.

8. CAPITAL LEASES

The following details the change in total obligation of capital leases:

	<u>12/31/2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2014</u>
Capital lease	<u>\$ 16,606</u>	<u>\$ 56,015</u>	<u>\$ 13,206</u>	<u>\$ 59,415</u>

The following schedule presents future minimum lease payments as of December 31, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$17,377
2016	12,732
2017	12,732
2018	12,732
2019	<u>9,549</u>
Minimum lease payments	65,122
Less amount representing interest	<u>(5,707)</u>
Present value of net minimum lease payments	59,415
Less current portion of capital Lease obligation	<u>(16,307)</u>
Long-term portion of capital lease	<u>\$ 43,108</u>

The Houston-Galveston Area Council has entered into a capital lease agreement for a color copier with a lease term of thirty-six months. It originated on June 1, 2012 and

ends on June 30, 2015 with principal of \$32,179 at inception.

H-GAC entered into a capital lease agreement for a high volume copier. This lease began on October 5, 2014 and ended on October 5, 2019. The lease allows H-GAC to retain ownership upon completion.

9. RETIREMENT PLAN

Retirement Plan for the Employees of Houston-Galveston Area Council, (“the Plan”), is a single employer, defined-contribution retirement plan for all employees 21 years of age or older having at least six months of service. The Plan is administered by Fidelity Management Trust Company. Retirement benefits depend solely on amounts contributed to the plan and any investment earnings thereon. The Plan requires participants to contribute an amount at least equal to 3% of gross salary. H-GAC matches the participant contribution with a 7% contribution. H-GAC has no further liability to the plan after making such contributions. Participants begin vesting in the employer’s contributions and earnings thereon after 3 years of service and become fully vested after 6 years. H-GAC’s contributions and earnings thereon which are forfeited by employees are used to reduce H-GAC’s contribution requirement. The H-GAC Board of Directors is responsible and has authority to amend the Plan provisions and contributions requirements.

H-GAC’s total payroll in 2014 was \$12,967,598. Retirement plan contributions were calculated using the gross salary amount for covered employees. H-GAC and its employees made contributions in 2014 of \$907,377 and \$961,459 respectively. Investments in the retirement plan are stated at fair value, based upon quoted market prices of the various mutual funds in which the funds are invested.

A stand-alone retirement plan report may be obtained by request, by writing the Chief Financial Officer of H-GAC at P. O. Box 22777, Houston, Texas 77227-2777.

10. OTHER REVENUE

Other revenue consists of revenues generated from programs operated under the general fund, workshops and publication sales.

11. COMMITMENTS AND CONTINGENCIES

Leases – During 2012, H-GAC renegotiated its lease space of approximately 65,199 square feet under an operating lease with an expiration date of November 2019 at an

annual base fee of \$1,548,476 which began in December 2014. Included in this lease is a 2% escalation annually over the term of the lease and two months of prorated rent which is amortized over the lease term. H-GAC also negotiated a tenant improvement allowance of \$15.00/square foot or \$977,985 for improvements to the leased space. These funds were not available under the lease until December 2014. H-GAC began improvements to the space in June 2014 and completed the renovation in March 2015. All revenues owed to H-GAC for the tenant improvements will be remitted in 2015. The schedule below reflects the revised lease terms. H-GAC has additional office space leased in satellite locations. These leases will terminate in March 2015 and February 2017. The base amount for these leases is \$1,611 and \$1,604 per month.

In addition to the office leases, H-GAC leases various equipment under non-cancellable operating leases with terms ranging from one to five years. Minimum future lease commitments under all leases for office space and equipment are as follows for the years ending December 31:

2015	1,537,046
2016	1,592,820
2017	1,570,964
2018	1,606,174
2019	<u>1,493,215</u>
Total minimum rental payments due	<u>\$ 7,800,219</u>

It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other property or equipment. Total lease expense for 2014 was \$1,331,112.

Required Matching Funds – H-GAC’s management is of the opinion that local (general fund) cash on hand and funds to be received in 2014 from membership dues and other locally generated revenues will be adequate to meet commitments for matching funds required by federal and state grants.

Federal and State Grants – Use of federal, state and locally administered federal and other grant funds is subject to review and audit by fund provider agencies. Such audits could lead to requests from the grantor agency for reimbursement of expenditures disallowed under terms of the contract or grant. To the extent that such disallowances

involve expenditures under subcontracted arrangements, H-GAC generally has the right of recovery from such third parties. A significant portion of the federal and state grant funds received by H-GAC are passed through to delegate agencies which administer certain parts of the grants on behalf of H-GAC. Management believes that H-GAC will not incur significant losses on possible grant disallowances.

Insurance – H-GAC purchases commercial insurance to minimize potential losses in the areas of general liability and directors’ and officers’ liability, workers’ compensation and automobile liability.

H-GAC did not experience any significant reductions in insurance coverage during fiscal year 2014 and did not have any instances in which settlements exceeded insurance coverage in any of the past three fiscal years.

Legal Contingencies – H-GAC is involved in lawsuits and other claims in the ordinary course of operations. The outcome of these lawsuits and other claims are not presently determinable, and the resolution of these matters is not expected to have a material effect on the financial condition of H-GAC.

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**HOUSTON-GALVESTON AREA COUNCIL
SUPPLEMENTARY SCHEDULE OF INDIRECT COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Actual</u>	<u>Budget</u>	<u>Percentage</u>
PERSONNEL			
Indirect salaries	\$ 1,013,915	\$ 1,045,250	50.50 %
Employee benefits	392,276	443,081	19.54
	<u>1,406,191</u>	<u>1,488,331</u>	<u>70.03</u>
CONSULTANT AND CONTRACT SERVICES			
Consultant	-	5,000	0.00
Accounting and auditing	11,550	12,000	0.58
Other contract services	49,426	-	2.47
Legal Services	1,972	2,000	0.11
	<u>62,948</u>	<u>19,000</u>	<u>3.14</u>
EQUIPMENT			
Purchase, lease, rental or maintenance office furniture, fixtures and equipment	4,551	3,000	0.23
Depreciation	305,668	450,000	15.21
	<u>310,219</u>	<u>453,000</u>	<u>15.45</u>
LEASE OF OFFICE SPACE	<u>65,000</u>	<u>83,722</u>	<u>3.24</u>
TRAVEL	<u>26,520</u>	<u>22,000</u>	<u>1.32</u>
OTHER			
Consumable supplies	10,823	8,024	0.54
Software and Database	44,126	16,000	2.20
Communications	893	1,050	0.04
Postage	7,666	6,800	0.38
Subscriptions & memberships	74,980	69,300	3.73
Insurance	26,961	-	1.34
Miscellaneous	35,325	32,667	1.76
	<u>200,774</u>	<u>133,841</u>	<u>10.00</u>
Indirect Carryforward	(63,779)	75,000	-3.18
TOTAL INDIRECT COSTS (A)	<u>\$ 2,007,873</u>	<u>\$ 2,274,894</u>	<u>100.0 %</u>
BASIS FOR ALLOCATION OF INDIRECT COSTS			
Chargeable salaries	\$ 12,967,599	\$ 14,448,269	
Employee benefits	5,432,092	6,124,731	
	<u>18,399,691</u>	<u>20,573,000</u>	
Less indirect salaries and Employee benefits	<u>(1,406,191)</u>	<u>(1,488,331)</u>	
TOTAL DIRECT SALARIES AND RELATED EMPLOYEE BENEFITS (B)	<u>\$ 16,993,500</u>	<u>\$ 19,084,669</u>	
ACTUAL INDIRECT COST RATE (A/B)	<u>11.82%</u>	<u>11.92%</u>	

**HOUSTON-GALVESTON AREA COUNCIL
 SUPPLEMENTARY SCHEDULE OF H-GAC EMPLOYEE BENEFITS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Amount</u>	<u>Percentage</u>
RELEASED TIME TAKEN AND ACCRUED:		
Vacation	\$ 821,818	15.13 %
Holidays	653,609	12.03
Sick leave	497,075	9.15
Other	22,213	0.41
	<u>1,994,715</u>	<u>36.71</u>
BENEFIT PROGRAMS:		
Payroll taxes	1,226,700	22.58
Retirement plan	909,857	16.75
Insurance	1,640,841	30.21
Other benefits	45,902	0.85
	<u>3,823,300</u>	<u>70.39</u>
Benefit carryforward	<u>(385,923)</u>	<u>-7.10</u>
TOTAL EMPLOYEE BENEFITS (A)	<u>\$ 5,432,092</u>	<u>100.00 %</u>
BASIS FOR ALLOCATION OF EMPLOYEE BENEFITS:		
Gross Salaries	\$ 14,962,314	
Less released time	<u>(1,994,715)</u>	
CHARGEABLE SALARIES (B)	<u>\$ 12,967,599</u>	
EMPLOYEE BENEFIT RATE (A/B)	<u>41.89 %</u>	

Statistical Section

This part of the Houston-Galveston’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosure says about the government’s overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information that help the reader assess HGAC’s most significant revenue sources.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help readers understand the environment within which H-GAC’s financial activities take place.



Houston-Galveston Area Council
Net Position by Component,
Last Ten Fiscal Years *
 (accrual basis of accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Governmental activities										
Invested in capital assets, net of related debt	\$ 388,381	\$ 540,890	\$ 859,120	\$ 691,645	\$ 1,441,651	\$ 1,733,977	\$ 1,536,514	\$ 1,171,554	\$ 873,153	\$ 1,772,876
Restricted	-	-	-	-	-	-	2,905,476	5,411,485	7,831,657	7,714,688
Unrestricted	4,749,115	5,154,466	5,523,016	6,028,190	5,989,894	6,153,368	6,655,894	7,059,754	7,350,151	8,078,247
Total governmental activities net position	\$ 5,137,496	\$ 5,695,356	\$ 6,302,136	\$ 6,719,835	\$ 7,431,545	\$ 7,887,345	\$ 11,097,883	\$ 13,642,793	\$ 16,054,961	\$ 17,565,811
Business-type activities										
Invested in capital assets, net of related debt	\$ 279	\$ -	\$ -	\$ -	\$ -	\$ 189,902	\$ 156,216	\$ 117,377	\$ 78,538	\$ 39,699
Unrestricted	1,837,831	2,214,980	2,812,946	2,859,776	4,221,915	4,921,302	5,564,522	7,430,101	8,441,204	9,791,095
Total business-type activities net assets	\$ 1,838,110	\$ 2,214,980	\$ 2,812,946	\$ 2,859,776	\$ 4,221,915	\$ 5,111,204	\$ 5,720,738	\$ 7,547,478	\$ 8,519,742	\$ 9,830,794
Primary government										
Net Investment in Capital Assets	\$ 388,660	\$ 540,890	\$ 859,120	\$ 691,645	\$ 1,441,651	\$ 1,923,879	\$ 1,692,730	\$ 1,288,931	\$ 951,691	\$ 1,812,575
Restricted	-	-	-	-	-	-	2,905,476	5,411,485	7,831,657	7,714,688
Unrestricted	6,586,946	7,369,446	8,335,962	8,887,966	10,211,809	11,074,670	12,220,416	14,489,855	15,791,355	17,869,342
Total primary government net assets	\$ 6,975,606	\$ 7,910,336	\$ 9,115,082	\$ 9,579,611	\$ 11,653,460	\$ 12,998,549	\$ 16,818,621	\$ 21,190,271	\$ 24,574,703	\$ 27,396,605

Houston-Galveston Area Council
Changes in Net Position, Last Ten Fiscal Years*
(actual basis of accounting)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
General government	\$ 2,063,416	\$ 3,777,906	\$ 4,072,839	\$ 7,627,031	\$ 5,000,582	\$ 3,189,351	\$ 3,192,212	\$ 3,695,088	\$ 1,123,501	\$ 3,017,955
Workforce programs	180,094,913	193,038,188	226,466,879	206,166,797	220,604,671	303,355,993	226,221,149	180,735,826	185,089,084	183,974,199
Transportation	32,279,051	40,014,800	25,009,904	22,924,182	21,520,444	30,219,209	24,111,492	23,840,134	33,229,456	28,705,403
Community and environmental	3,738,990	3,654,662	4,997,975	8,009,836	7,902,348	4,563,591	11,156,076	8,016,851	10,310,254	22,778,574
Criminal justice	1,171,641	1,073,613	1,045,117	1,432,448	1,480,760	1,368,165	1,604,765	848,023	1,027,540	947,483
Emergency communications	2,572,763	2,190,676	5,936,604	2,489,410	5,918,726	2,929,196	7,290,785	3,898,273	3,242,332	4,881,827
Aging services	6,243,085	7,011,521	7,112,240	6,652,789	9,975,099	8,603,598	9,299,666	9,144,786	8,774,680	8,975,078
Total governmental activities expenses	228,163,859	250,761,186	274,640,588	257,312,503	272,402,650	354,229,103	282,876,145	230,178,981	242,796,847	253,280,519
Business-type activities:										
Cooperative purchasing	8,968,889	1,874,891	2,100,589	2,382,046	2,344,257	2,353,892	2,647,242	2,477,374	2,978,910	3,032,813
Total business-type activities expenses	8,968,889	1,874,891	2,100,589	2,382,046	2,344,257	2,353,892	2,647,242	2,477,374	2,978,910	3,032,813
Total primary government expenses	\$ 237,132,748	\$ 252,636,077	\$ 276,741,147	\$ 259,694,549	\$ 274,746,907	\$ 356,582,995	\$ 285,523,387	\$ 232,656,355	\$ 245,775,757	\$ 256,313,332
Program Revenues										
Governmental activities:										
Charges for services:										
Membership dues	\$ 324,029	\$ 320,667	\$ 343,004	\$ 304,493	\$ 327,683	\$ 335,139	\$ 323,680	\$ 332,635	\$ 395,538	\$ 402,918
Interlocal contracts	1,627,229	3,062,722	3,610,855	4,347,083	4,275,528	1,797,840	2,393,802	1,710,860	734,742	1,616,261
Data services and imaging	-	-	-	2,908,167	878,651	842,738	355,006	1,279,097	389,465	670,050
Operating grants and contributions	226,026,149	246,943,370	270,510,949	249,670,801	267,824,047	351,325,543	282,374,159	228,699,778	243,745,694	249,980,261
Total governmental activities program revenues	227,977,407	250,326,759	274,464,808	257,230,544	273,305,909	354,301,260	285,446,657	232,022,370	245,265,439	252,669,480
Business-type activities:										
Charges for services:										
Cooperative purchasing	9,338,637	2,289,985	2,633,384	2,315,885	3,882,653	3,243,181	3,256,776	4,304,114	3,951,174	4,843,865
Total business-type activities program revenues	9,338,637	2,289,985	2,633,384	2,315,885	3,882,653	3,243,181	3,256,776	4,304,114	3,951,174	4,843,865
Total primary government program revenues	\$ 237,316,044	\$ 252,616,744	\$ 277,098,192	\$ 259,546,429	\$ 277,188,562	\$ 357,544,441	\$ 288,703,433	\$ 236,326,484	\$ 249,216,613	\$ 257,513,355
Net (Expense)/Revenue										
Governmental activities	\$ (186,452)	\$ (434,427)	\$ (175,750)	\$ (81,959)	\$ 903,259	\$ 72,157	\$ 2,570,512	\$ 1,843,389	\$ 2,468,592	\$ (611,030)
Business-type activities	369,748	385,094	532,785	(66,161)	1,538,396	889,289	609,534	1,826,740	972,264	1,811,052
Total primary government net expense	\$ 183,296	\$ (49,333)	\$ 357,045	\$ (148,120)	\$ 2,441,655	\$ 961,446	\$ 3,180,046	\$ 3,670,129	\$ 3,440,856	\$ 1,200,022
General Revenues and Other Changes in Net Position										
Governmental activities:										
State financial assistance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	268,557	448,612	318,535	169,199	17,511	42,374	70,482	14,668	158,039	15,741
Miscellaneous	292,958	966,052	746,105	784,359	288,404	341,270	522,311	696,854	(214,461)	1,606,138
Transfers in	\$ 561,515	\$ 1,414,664	\$ 1,064,640	\$ 953,558	\$ 305,915	\$ 383,644	\$ 592,793	\$ 711,522	\$ (56,422)	\$ 2,121,879
Total governmental activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (500,000)
Business-type activities:										
Transfers out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (500,000)
Total Business-type activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (500,000)
Change in Net Position										
Governmental activities	\$ 375,063	\$ 980,237	\$ 888,890	\$ 871,599	\$ 1,209,174	\$ 455,801	\$ 3,163,305	\$ 2,554,909	\$ 2,412,168	\$ 1,510,849
Business-type activities	369,748	385,094	532,785	(66,161)	1,538,396	889,289	609,534	1,826,740	972,264	1,311,052
Total primary government	\$ 744,811	\$ 1,365,331	\$ 1,421,675	\$ 805,438	\$ 2,747,570	\$ 1,345,089	\$ 3,772,838	\$ 4,381,649	\$ 3,384,432	\$ 2,821,901

Houston-Galveston Area Council
Fund Balances, Governmental Funds,
Last Ten Fiscal Years *
(modified accrual basis of accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Fund										
Nonspendable	\$ 240,391	\$ 242,510	\$ 173,723	\$ 205,943	\$ 81,395	\$ 116,622	\$ 115,315	\$ 83,951	\$ 179,415	\$ 116,304
Unassigned	5,006,864	5,410,724	5,869,058	6,303,264	6,432,577	6,654,711	7,161,978	7,880,052	8,062,639	8,817,921
Total general fund	\$ 5,247,255	\$ 5,653,234	\$ 6,042,781	\$ 6,509,207	\$ 6,513,972	\$ 6,771,333	\$ 7,277,293	\$ 7,964,003	\$ 8,242,054	\$ 8,934,225
All Other Governmental Funds										
Restricted for:										
EPA RLF Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 228,990	\$ 266,224	\$ 201,005	\$ 81,896	\$ 114,974
Regional Excellence Corporation	\$ 78,324	\$ 74,691	\$ 124,983	\$ 246,617	\$ 192,845	\$ 228,990	\$ 3,056,385	\$ 5,411,485	\$ 7,831,657	\$ 7,714,688
Total all other governmental funds	\$ 78,324	\$ 74,691	\$ 124,983	\$ 246,617	\$ 192,845	\$ 228,990	\$ 3,056,385	\$ 5,411,485	\$ 7,831,657	\$ 7,714,688

**Houston-Galveston Area Council
Changes in Fund Balances, Governmental Funds,
Last Ten Fiscal Years ***
(modified accrual basis of accounting)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues										
Interest income	\$ 268,557	\$ 448,612	\$ 318,535	\$ 169,199	\$ 17,511	\$ 42,374	\$ 70,482	\$ 14,668	\$ 11,974	\$ 15,741
Membership dues	324,029	320,667	343,004	304,493	327,684	335,139	323,690	332,635	395,538	402,917
Interlocal contracts	546,593	1,397,582	1,772,747	2,231,238	1,852,880	1,797,840	2,393,802	1,710,860	734,742	1,616,261
Data services and imaging	111,032	709,558	415,083	2,908,167	878,651	842,738	355,006	1,279,097	389,465	670,050
Miscellaneous income	181,926	256,494	331,022	784,359	288,410	341,270	522,311	696,854	(214,461)	1,606,138
Operating grants and contributions	226,026,149	246,943,369	270,510,948	249,670,801	267,824,046	351,325,543	282,374,159	228,699,778	243,891,754	249,980,261
Total revenues	227,458,286	250,076,282	273,691,339	256,068,257	271,189,182	354,684,904	286,039,450	232,733,892	245,209,012	\$ 254,291,369
Expenditures										
General government	884,418	2,318,171	2,326,981	5,779,279	2,754,758	2,866,929	3,111,232	3,397,292	936,046	2,955,078
Workforce programs	179,947,974	192,988,668	226,420,911	208,107,447	220,546,495	303,505,280	226,130,967	180,661,303	185,067,235	183,838,987
Transportation	32,185,142	39,928,531	24,944,943	22,846,634	21,400,894	30,067,030	23,951,444	23,672,771	33,126,845	28,568,435
Community and environmental	3,723,915	3,636,341	4,980,113	7,981,947	8,176,308	4,529,900	11,075,539	7,926,066	10,227,572	22,704,646
Criminal justice	1,165,767	1,067,250	1,039,398	1,606,226	1,454,588	1,652,330	1,544,171	773,435	958,987	957,655
Emergency communications	2,567,408	2,185,852	5,932,603	2,490,825	5,910,612	2,912,647	7,290,076	3,876,498	3,219,814	4,868,627
Aging services	6,232,693	7,002,906	7,105,642	6,642,238	9,962,271	8,584,279	9,330,307	9,106,269	8,750,081	8,937,602
Regional excellence corporation	300,827	213,968	114,505	93,394	411,101	164,759	80,259	152,719	188,720	86,941
Debt service:										
Principal	48,322	24,015	-	-	43,329	28,106	26,762	23,732	10,767	13,206
Interest	2,925	496	-	-	9,428	6,542	4,085	1,397	380	1,125
Capital outlay	127,020	307,738	466,404	32,020	668,401	73,594	161,253	134,508	24,341	1,339,506
Total expenditures	227,186,411	249,673,936	273,331,500	255,515,970	271,338,187	354,391,398	282,706,095	229,725,992	242,510,790	254,271,808
Excess of revenues over (under) expenditures	271,875	402,346	359,839	552,287	(149,005)	293,506	3,333,355	3,007,900	2,698,222	19,561
Other Financing Sources (Uses)										
Capital leases	1,354	-	80,000	98,038	-	-	-	33,910	-	55,642
Total other financing sources (uses)	1,354	-	80,000	98,038	100,000	-	-	33,910	-	500,000
Transfers in										
Net change in fund balances	\$ 273,229	\$ 402,346	\$ 439,839	\$ 650,325	\$ (49,005)	\$ 293,506	\$ 3,333,355	\$ 3,041,810	\$ 2,698,222	\$ 575,203
Debt service as a percentage of noncapital expenditures	0.02%	0.01%	0.00%	0.00%	0.02%	0.01%	0.01%	0.01%	0.00%	0.01%

Houston-Galveston Area Council
 Full-time Equivalent Employees by Function/Program
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

Function/Program	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Executive										
Executive Director	3	4	4	4	4	4	4	4.5	4	4
Internal Audit	3	3	3	3	3	3	2	3.5	4	4
Finance Administration										
Finance	10	10	11	13	14	15.5	14	15	14	13
Office Services	7	6	6	4	4	4	5	5	4	7
Program Services										
Chief Operating Officer	2	3	3	2	2	2	2	1	1	2
Community and Environmental Planning	26	26.5	31.5	31	36.5	37.5	37	42.5	45.5	41
Data Services	13	12	11	13	13	12	12.5	15.5	16.5	20.5
Human Services	51	50	53.5	66.5	62	64	60	59	56	49
Public Services	25.5	29	32	33	35	40	38	30	32	31
Transportation	54	54	58	53	57.5	58	58	61	58	56.5
Total	195.5	197.5	212	222.5	231	240	232.5	237	235	228

Source: H-GAC

Houston-Galveston Area Council
Ten Largest Non-Governmental Regional Employers

Walmart	30,000
Memorial Hermann	20,000
The University of Texas MD Anderson Cancer Center	18,700
H-E-B	17,600
United Airlines	16,700
McDonald's Corp.	14,900
Kroger Co.	14,800
Exxon Mobil Corp.	14,400
The Methodist Hospital System	14,300
Schlumberger	10,800

Source: Houston Chronicle and H-GAC

COUNTY PROFILES

Austin County

Land Area (sq. miles)	653
Persons per Square Mile	44
County Seat	Bellville
Population (2013)	28,847
Race	
<i>White</i>	18,407
<i>Black</i>	2,579
<i>Asian</i>	127
<i>Hispanic</i>	7,360
<i>Two or More Races and Other</i>	374
Households and Families (2013)	
Total households	10,615
Average family size	2.67
Average Household Size	3.31
Vital Statistics (2012)	
Marriages	198
Divorces	105
Births	348
Male	171
Female	177
Deaths	258
Unemployment Rate (03/2015)	3.90%

Brazoria County

Land Area (sq. miles)	1,386
Persons per Square Mile	238
County Seat	Angleton
Population (2013)	330,242
Race	
<i>White</i>	167,457
<i>Black</i>	41,976
<i>Asian</i>	19,404
<i>Hispanic</i>	95,520
<i>Two or More Races and Other</i>	5,885
Households and Families (2013)	
Total households	107,717
Average family size	2.86
Average Household Size	3.43
Vital Statistics (2012)	
Marriages	1,897
Divorces	1,305
Births	4,610
Male	2,357
Female	2,253
Deaths	2,041
Unemployment Rate (03/2015)	4.20%

Chambers County

Land Area (sq. miles)	599
Persons per Square Mile	61
County Seat	Anahuac
Population (2013)	36,812
Race	
<i>White</i>	25,411
<i>Black</i>	2,873
<i>Asian</i>	417
<i>Hispanic</i>	7,593
<i>Two or More Races and Other</i>	518
Households and Families (2013)	
Total households	12,147
Average family size	2.90
Average Household Size	3.28
Vital Statistics (2012)	
Marriages	197
Divorces	201
Births	459
Male	225
Female	234
Deaths	258
Unemployment Rate (03/2015)	4.90%

Colorado County

Land Area (sq. miles)	963
Persons per Square Mile	22
County Seat	Columbus
Population (2013)	20,752
Race	
<i>White</i>	12,092
<i>Black</i>	2,565
<i>Asian</i>	122
<i>Hispanic</i>	5,780
<i>Two or More Races and Other</i>	193
Households and Families (2013)	
Total households	8,079
Average family size	2.52
Average Household Size	3.13
Vital Statistics (2012)	
Marriages	123
Divorces	59
Births	237
Male	124
Female	113
Deaths	292
Unemployment Rate (03/2015)	3.40%

Fort Bend County

Land Area (sq. miles)	875
Persons per Square Mile	746
County Seat	Richmond
Population (2013)	652,365
Race	
<i>White</i>	232,211
<i>Black</i>	133,305
<i>Asian</i>	118,667
<i>Hispanic</i>	156,488
<i>Two or More Races and Other</i>	11,694
Households and Families (2013)	
Total households	191,406
Average family size	3.15
Average Household Size	3.55
Vital Statistics (2012)	
Marriages	3,015
Divorces	1,738
Births	8,136
Male	4,173
Female	3,963
Deaths	2,473
Unemployment Rate (03/2015)	3.90%

Galveston County

Land Area (sq. miles)	398
Persons per Square Mile	771
County Seat	Galveston
Population (2013)	306,782
Race	
<i>White</i>	178,985
<i>Black</i>	40,194
<i>Asian</i>	9,833
<i>Hispanic</i>	72,075
<i>Two or More Races and Other</i>	5,695
Households and Families (2013)	
Total households	110,032
Average family size	2.65
Average Household Size	3.28
Vital Statistics (2012)	
Marriages	2,123
Divorces	1,123
Births	3,895
Male	1,956
Female	1,939
Deaths	2,317
Unemployment Rate (03/2015)	4.70%

Harris County

Land Area (sq. miles)	1,729
Persons per Square Mile	2,508
County Seat	Houston
Population (2013)	4,336,853
Race	
<i>White</i>	1,382,389
<i>Black</i>	803,005
<i>Asian</i>	284,790
<i>Hispanic</i>	1,803,547
<i>Two or More Races and Other</i>	63,122
Households and Families (2013)	
Total households	1,434,694
Average family size	2.89
Average Household Size	3.63
Vital Statistics (2012)	
Marriages	31,125
Divorces	14,030
Births	67,354
Male	34,282
Female	33,072
Deaths	23,409
Unemployment Rate (03/2015)	4.20%

Liberty County

Land Area (sq. miles)	1,160
Persons per Square Mile	66
County Seat	Liberty
Population (2013)	76,907
Race	
<i>White</i>	51,912
<i>Black</i>	8,061
<i>Asian</i>	458
<i>Hispanic</i>	15,188
<i>Two or More Races and Other</i>	1,288
Households and Families (2013)	
Total households	24,844
Average family size	2.82
Average Household Size	3.36
Vital Statistics (2012)	
Marriages	632
Divorces	271
Births	1,052
Male	552
Female	500
Deaths	683
Unemployment Rate (03/2015)	6.40%

Matagorda County

Land Area (sq. miles)	1,114
Persons per Square Mile	33
County Seat	Bay City
Population (2013)	36,592
Race	
<i>White</i>	16,905
<i>Black</i>	3,873
<i>Asian</i>	735
<i>Hispanic</i>	14,625
<i>Two or More Races and Other</i>	454
Households and Families (2013)	
Total households	13,260
Average family size	2.72
Average Household Size	3.36
Vital Statistics (2012)	
Marriages	313
Divorces	144
Births	498
Male	249
Female	249
Deaths	365
Unemployment Rate (03/2015)	6.50%

Montgomery County

Land Area (sq. miles)	1,044
Persons per Square Mile	478
County Seat	Conroe
Population (2013)	499,137
Race	
<i>White</i>	346,640
<i>Black</i>	21,846
<i>Asian</i>	12,317
<i>Hispanic</i>	109,388
<i>Two or More Races and Other</i>	8,946
Households and Families (2013)	
Total households	163,462
Average family size	2.87
Average Household Size	3.43
Vital Statistics (2012)	
Marriages	3,176
Divorces	1,946
Births	6,382
Male	3,224
Female	3,158
Deaths	2,994
Unemployment Rate (03/2015)	3.90%

Walker County

Land Area (sq. miles)	787
Persons per Square Mile	87
County Seat	Huntsville
Population (2013)	68,817
Race	
<i>White</i>	39,722
<i>Black</i>	15,339
<i>Asian</i>	705
<i>Hispanic</i>	12,065
<i>Two or More Races and Other</i>	986
Households and Families (2013)	
Total households	20,558
Average family size	2.26
Average Household Size	2.91
Vital Statistics (2012)	
Marriages	415
Divorces	203
Births	579
Male	309
Female	270
Deaths	511
Unemployment Rate (03/2015)	4.60%

Waller County

Land Area (sq. miles)	514
Persons per Square Mile	88
County Seat	Hempstead
Population (2013)	45,213
Race	
<i>White</i>	19,705
<i>Black</i>	11,244
<i>Asian</i>	287
<i>Hispanic</i>	13,324
<i>Two or More Races and Other</i>	653
Households and Families (2013)	
Total households	13,601
Average family size	2.97
Average Household Size	3.49
Vital Statistics (2012)	
Marriages	348
Divorces	138
Births	579
Male	289
Female	290
Deaths	281
Unemployment Rate (03/2015)	4.10%

Wharton County

Land Area (sq. miles)	1,090
Persons per Square Mile	38
County Seat	Wharton
Population (2013)	41,216
Race	
<i>White</i>	19,061
<i>Black</i>	5,551
<i>Asian</i>	203
<i>Hispanic</i>	16,068
<i>Two or More Races and Other</i>	333
Households and Families (2013)	
Total households	14,517
Average family size	2.80
Average Household Size	3.61
Vital Statistics (2012)	
Marriages	209
Divorces	117
Births	540
Male	277
Female	263
Deaths	418
Unemployment Rate (03/2015)	3.90%

Sources: US Census Bureau
Texas Department of Health
Texas Workforce Commission
H-GAC

Total Population and Change in Population
Census 1980-2014

	1980	1990	2000	2010	2011	2012	2013	2014
AUSTIN	17,726	19,832	23,590	28,417	28,652	28,622	28,811	29,114
BRAZORIA	169,587	191,707	241,767	313,166	319,444	324,697	330,670	338,124
CHAMBERS	18,538	20,088	26,031	35,096	35,597	36,388	37,215	38,145
COLORADO	18,823	18,383	20,390	20,874	20,799	20,685	20,776	20,719
FORT BEND	130,962	225,421	354,452	585,375	607,501	626,704	654,561	685,345
GALVESTON	195,738	217,396	250,158	291,309	295,673	301,469	307,465	314,198
HARRIS	2,409,547	2,818,101	3,400,578	4,092,459	4,181,948	4,263,060	4,352,752	4,441,370
LIBERTY	47,088	52,726	70,154	75,643	76,042	76,511	77,033	78,117
MATAGORDA	37,828	36,928	37,957	36,702	36,714	36,566	36,537	36,519
MONTGOMERY	127,222	182,201	293,768	455,746	471,836	485,119	499,818	518,947
WALKER	14,618	14,675	16,809	15,507	15,639	15,591	15,724	15,893
WALLER	19,798	23,374	32,663	43,205	44,028	44,353	45,484	46,820
WHARTON	40,242	39,955	41,188	41,280	41,250	41,147	41,215	41,168
H-GAC 13	3,247,717	3,860,787	4,809,505	6,034,779	6,175,123	6,300,912	6,448,061	6,604,479
TEXAS	14,225,513	16,986,335	20,851,820	25,145,561	25,657,477	26,094,422	26,505,637	26,956,958

Source: US Census

**Texas 2014 State Expenditures by County
Summary for the H-GAC Region, Ranked by Expenditures**

Rank	County	Total	Inter-governmental Payments	Labor Costs	Public Assistance	Highway Construction	Operating Expenses	Capital Outlays	Miscellaneous
1	Harris	15,729,426,753	4,048,249,079	2,018,452,876	8,267,585,095	861,207,912	187,426,758	51,493,935	295,011,098
2	Dallas	12,085,182,596	2,851,704,803	3,190,911,122	4,362,179,178	471,235,125	394,017,336	100,602,776	714,532,256
3	Travis	9,438,031,995	1,286,003,043	3,638,605,780	2,364,630,457	562,544,568	338,638,549	41,281,093	1,206,328,504
4	Bexar	8,156,539,709	2,089,274,061	969,056,104	4,665,309,149	204,941,269	69,377,015	16,859,895	141,722,217
5	Tarrant	6,238,714,013	1,900,680,961	630,932,409	3,074,201,566	458,017,116	50,124,789	20,694,872	104,062,300
6	El Paso	3,736,148,989	1,354,961,492	426,866,843	1,356,703,971	550,375,129	15,893,036	428,231	30,920,485
7	Hidalgo	3,597,594,294	2,035,013,651	378,406,883	1,090,066,433	57,927,707	15,381,330	1,151,403	19,646,889
8	Fort Bend	2,678,108,426	651,437,314	281,790,129	1,600,366,840	99,311,045	10,879,032	1,182,500	33,141,566
9	Nueces	1,964,085,427	381,737,865	242,191,111	1,170,083,046	134,226,685	13,998,749	1,019,391	20,828,580
10	Williamson	1,820,730,496	333,753,673	800,143,806	564,232,208	34,432,882	40,955,551	1,202,506	46,009,870
17	Galveston	1,214,024,905	358,321,268	412,721,245	379,641,453	34,637,176	13,700,771	422,138	14,580,854
18	Montgomery	1,161,353,448	453,105,001	199,097,061	392,239,113	71,682,908	11,767,904	859,850	32,601,612
19	Brazoria	995,318,492	331,103,366	166,637,352	459,923,739	14,486,817	12,223,569	349,117	14,594,532
33	Walker	452,842,686	49,769,214	277,985,615	45,307,667	31,394,609	23,992,096	1,451,281	22,342,203
54	Liberty	241,362,302	88,619,707	42,578,896	66,432,978	28,741,574	3,652,915	277,788	11,058,443
62	Wharton	202,875,583	51,960,352	25,524,087	84,195,186	24,220,167	13,905,213	51,400	3,019,178
85	Waller	130,717,619	21,515,052	60,752,916	32,767,951	3,873,592	6,479,458	2,800,000	2,528,651
92	Matagorda	112,682,989	39,625,214	15,820,883	53,570,061	73,895	2,569,167	47,500	976,270
104	Chambers	86,238,591	30,085,048	11,718,819	25,113,143	13,027,884	3,460,634	.	2,833,063
108	Austin	85,072,374	21,185,524	18,296,881	31,097,018	9,794,689	2,136,676	16,535	2,545,051
117	Colorado	74,770,446	16,482,749	10,999,932	29,215,444	10,942,259	4,833,640	75,880	2,220,542
	TOTAL FOR TEXAS COUNTIES	106,935,855,325	28,839,093,732	22,078,848,501	44,612,002,504	5,305,157,884	1,911,411,043	332,987,145	3,856,352,517
	TOTAL REGIONAL	23,168,794,614	6,161,458,888	3,542,376,692	11,467,455,688	1,203,994,527	297,027,833	59,027,924	437,453,063
	% OF EXPENDITURE	21.7%	21.4%	16.0%	25.7%	22.7%	15.5%	17.7%	11.3%

Source: Texas Comptroller of Public Accounts

**Texas 2014 State Expenditures by Council Of Governments
Ranked by Expenditures**

Rank	COG Region	Total	Inter-governmental Payments	Labor Costs	Public Assistance	Highway Construction	Operating Expenses	Capital Outlays	Miscellaneous
1	North Central Texas	24,633,335,728	6,631,008,404	4,877,848,221	10,117,210,297	1,350,365,264	513,480,999	145,856,584	937,565,957
2	Houston-Galveston Area	23,168,794,613	6,161,458,887	3,542,376,692	11,467,455,688	1,203,994,526	297,027,833	59,027,923	437,453,064
3	Capital Area	12,947,168,652	1,943,897,750	5,103,446,544	3,423,168,477	676,957,320	409,006,035	47,248,492	1,343,444,033
4	Alamo Area	9,942,461,922	2,513,433,000	1,327,022,159	5,397,650,033	281,425,345	111,782,041	20,784,239	290,365,104
5	Lower Rio Grande Valley	5,427,830,938	2,967,350,628	596,322,498	1,751,013,651	25,757,427	28,238,684	7,011,236	52,136,814
6	Rio Grande	3,860,629,833	1,392,310,820	465,161,449	1,378,768,258	565,883,666	19,760,712	438,749	38,306,179
7	East Texas	3,084,884,944	779,295,842	621,677,059	1,434,966,232	84,124,661	49,003,564	1,911,624	113,905,962
8	Coastal Bend	2,858,230,186	683,832,264	467,382,356	1,444,927,115	176,514,575	36,823,003	1,582,625	47,168,248
9	South Plains	2,165,771,309	440,286,208	675,683,116	853,332,502	105,063,995	31,716,390	4,097,719	55,591,379
10	Central Texas	1,859,970,139	574,568,792	406,001,914	654,431,745	153,738,607	19,050,018	2,477,164	49,701,898
11	Brazos Valley	1,851,641,069	234,638,481	958,483,312	423,371,144	56,724,316	50,916,793	20,211,102	107,295,919
12	West Central Texas	1,699,631,860	355,749,190	405,733,549	801,528,286	69,002,395	28,103,820	188,636	39,325,984
13	Deep East Texas	1,647,669,375	455,800,718	418,466,058	630,146,189	63,004,260	41,208,582	195,402	38,848,165
14	Panhandle	1,536,152,697	485,137,903	348,920,835	566,251,132	91,558,205	30,816,720	399,918	13,067,983
15	Heart of Texas	1,473,908,054	460,497,486	323,281,113	541,402,476	65,484,041	30,562,922	1,878,141	50,801,875
16	South East Texas	1,401,885,425	349,739,276	292,336,936	659,467,375	40,393,836	22,198,579	16,535,370	21,214,054
17	South Texas	1,276,007,409	692,625,616	141,642,866	383,936,315	41,401,439	9,519,714	-9,645	6,891,105
18	Permian Basin	1,198,003,696	283,365,637	228,033,791	596,359,994	38,748,037	25,534,917	309,333	25,651,987
19	Ark-Tex	1,140,214,280	350,638,345	171,211,720	471,340,759	51,133,248	73,106,649	705,843	22,077,716
20	Nortex	934,757,118	210,647,622	263,343,612	378,285,389	36,961,097	21,615,138	183,943	23,720,316
21	Concho Valley	806,325,584	165,570,121	158,205,047	443,675,251	8,704,238	16,759,836	429,937	12,981,154
22	Middle Rio Grande	759,874,534	308,946,821	80,042,977	261,937,881	76,155,084	13,389,336	14,447	19,387,989
23	Golden Crescent	643,660,489	178,826,885	107,079,224	286,481,799	14,401,506	20,169,872	1,107,912	35,593,291
24	Texoma	617,045,472	219,469,034	99,145,451	244,894,515	27,660,795	11,618,889	400,449	13,856,340
TOTAL FOR COUNCIL OF GOVERNMENTS		106,935,855,325	28,839,095,732	22,078,848,501	44,612,002,504	5,305,157,884	1,911,411,043	332,987,145	3,856,352,517

Source: Texas Comptroller of Public Accounts

Voter Registration 1996 - 2015 Primary Elections

	Number of Precincts	Total Registered Voters														
		1996	1998	2000	2002	2004	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austin	19	13,223	14,115	14,905	15,019	16,123	17,034	16,841	17,252	17,145	17,546	17,151	17,534	17,732	18,178	18,058
Brazoria	77	120,294	135,443	147,811	147,972	150,164	157,705	154,246	159,948	163,934	168,097	163,917	168,795	181,609	178,808	178,804
Chambers	13	14,451	16,070	17,479	17,808	18,458	20,450	21,164	21,053	21,930	22,707	22,862	23,316	23,729	24,338	24,481
Colorado	12	12,130	11,558	12,040	11,746	12,339	13,008	13,175	13,116	13,052	13,249	12,865	13,021	12,953	13,233	13,085
Fort Bend	142	148,169	175,820	202,706	213,061	227,775	256,461	256,537	267,583	290,019	300,777	302,223	315,207	332,199	347,188	359,046
Galveston	171	153,653	168,481	176,888	172,483	173,848	182,743	176,504	180,288	177,697	179,928	172,603	177,334	179,943	184,818	194,770
Harris	1,069	1,592,569	1,755,809	1,886,581	1,866,381	1,808,048	1,871,929	1,782,013	1,804,641	1,859,043	1,889,378	1,847,952	1,884,489	1,930,759	1,998,264	1,998,988
Liberty	36	36,648	39,323	42,270	42,790	44,721	44,359	43,354	43,253	42,505	42,863	41,111	41,949	41,025	41,263	40,251
Matagorda	18	21,956	22,866	23,095	21,512	20,607	20,890	20,284	20,761	20,540	20,893	20,131	20,625	20,201	20,577	20,265
Montgomery	89	138,348	159,571	183,958	188,100	197,107	215,878	214,406	224,321	235,052	243,027	238,707	246,768	257,799	268,147	273,352
Walker	18	26,595	29,041	29,556	27,344	26,887	28,190	27,658	28,343	29,119	29,507	28,356	29,169	28,983	29,578	29,044
Waller	21	17,225	18,539	20,123	21,561	24,404	24,709	25,861	27,045	28,787	29,792	27,037	27,706	27,751	28,288	28,344
Wharton	34	21,003	22,009	22,612	22,587	23,618	24,583	23,493	23,992	24,082	24,471	23,675	24,090	23,907	24,275	23,743
H-GAC region	1,719	2,316,264	2,568,645	2,780,024	2,768,364	2,744,099	2,877,939	2,775,536	2,831,596	2,922,905	2,982,235	2,918,590	2,990,003	3,078,590	3,176,955	3,202,231

Source: Office of the Texas Secretary of State

Texas 2014 General Elections

	Registered Voters	Total Votes	Turn Out	Republican	Democratic	Libertarian	Other
AUSTIN	18,562	7,182	38.69%	5,813	1,252	81	36
BRAZORIA	183,488	62,280	33.94%	41,373	19,703	932	272
CHAMBERS	25,104	8,415	33.52%	6,778	1,490	114	33
COLORADO	13,414	5,157	38.44%	3,881	1,192	62	22
FORT BEND	363,147	132,468	36.48%	73,749	56,825	1,462	432
GALVESTON	191,961	64,854	33.78%	40,422	23,201	991	240
HARRIS	2,062,792	680,076	32.97%	349,639	320,160	7,818	2,459
LIBERTY	42,265	12,502	29.58%	9,576	2,681	178	67
MATAGORDA	20,945	6,952	33.19%	4,691	2,115	116	30
MONTGOMERY	281,496	104,895	37.26%	83,938	19,179	1,434	344
WALKER	30,160	11,387	37.76%	7,669	3,476	196	46
WALLER	29,871	9,195	30.78%	6,329	2,741	85	40
WHARTON	24,663	8,399	34.06%	6,215	2,075	75	34
H-GAC Region	3,287,868	1,113,762	33.87%	640,073	456,090	13,544	4,055

Source: Office of the Secretary of State

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Single Audit Section



**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***

To the Board of Directors
Houston-Galveston Area Council

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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Houston-Galveston Area Council (the "Council"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated July 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council'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 the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Council'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Houston-Galveston Area Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council'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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
July 7, 2015

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB CIRCULAR A-133 AND THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS

To the Board of Directors
Houston-Galveston Area Council

Report on Compliance for Each Major Federal and State Program

We have audited Houston-Galveston Area Council's (the "Council") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Uniform Grant Management Standards* that could have a direct and material effect on each of Council's major federal and state programs for the year ended December 31, 2014. The Council'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 the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council'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 States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State of Texas Uniform Grant Management Standards*. 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 or state program occurred. An audit includes examining, on a test basis, evidence about the Council'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 the Council's compliance.

To the Board of Directors
Houston-Galveston Area Council

Opinion on Each Major Federal Program

In our opinion, the Council 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 December 31, 2014.

Report on Internal Control Over Compliance

Management of the Council 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 the Council'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 OMB Circular A-133 and the *State of Texas Uniform Grant Management Standards*, 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 the Council'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 OMB Circular A-133 and the *State of Texas Uniform Grant Management Standards*. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
July 7, 2015

HOUSTON-GALVESTON AREA COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
FEDERAL PROGRAMS				
PRIMARY GOVERNMENT:				
U.S. DEPARTMENT OF AGRICULTURE				
Direct Program				
USDA-RD-HCFP-RCDI-2013	Rural Community Development Initiative	10.446	5,296	-
	Total - Direct Program		5,296	-
Passed Through the Texas Workforce Commission				
2814SNE000	SNAP E&T - 2014	10.561	986,327	945,588
2815SNE000	SNAP E&T - 2015	10.561	129,482	124,190
2814SNA000	SNAP E&T ABAWD - 2014	10.561	940,977	909,305
	Subtotal - 10.561		2,056,786	1,979,083
	Total - Texas Workforce Commission		2,056,786	1,979,083
TOTAL U. S. DEPARTMENT OF AGRICULTURE			2,062,082	1,979,083
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Program				
TXRIP0035-10	Sustainable Communities Regional Planning	14.703	112,963	-
	Total - Direct Program		112,963	-
Passed Through the Texas Department of Agriculture				
C713218	Community Development Block Grant - 2014	14.228	13,916	-
C714218	Community Development Block Grant - 2015	14.228	1,469	-
	Total - Texas Department of Agriculture		15,385	-
Passed Through the General Land Office				
72090016	CDBG - IKE/Dolly Funding	14.228	319,737	303,420
12-506-000-6719	CDBG - Disaster Recovery Program Non-Rental Housing Projects	14.228	12,665,156	11,325,144
12-505-000-6718	CDBG - IKE Admin Rental	14.228	221,249	-
13-245-000-7444	CDBG - Disaster Recovery Program Non-Rental Housing Projects-Chamb	14.228	6,198,476	5,861,324
12-505-000-6718	CDBG - IKE Single family Rental	14.228	206,640	206,640
12-506-000-6719	CDBG - IKE Rapid Housing	14.228	145,380	-
	Subtotal - 14.228		19,756,638	17,696,528
	Total - General Land Office		19,756,638	17,696,528
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			19,884,986	17,696,528
U.S. DEPARTMENT OF LABOR				
Passed Through the Texas Workforce Commission				
2814RAG000	Employment Services - Resource Admin Grant - 2014	17.207	14,093	-
2815RAG000	Employment Services - Resource Admin Grant - 2015	17.207	4,946	-
2814WPA000	Employment Services - 2014	17.207	835,291	700,000
2815WPA000	Employment Services - 2015	17.207	142,632	142,632
	Subtotal - Employment Service Cluster		996,962	842,632
Unemployment Insurance - Resource Admin Grant - 2014				
2814RAG000	Unemployment Insurance - Resource Admin Grant - 2014	17.225	4,697	-
2815RAG000	Unemployment Insurance - Resource Admin Grant - 2015	17.225	1,648	-
	Subtotal - 17.225		6,345	-
Trade Act Services for Dislocated Workers - 2014				
2814TRA000	Trade Act Services for Dislocated Workers - 2014	17.245	718,719	701,946
2815TRA000	Trade Act Services for Dislocated Workers - 2015	17.245	21,204	2,052
	Subtotal - 17.245		739,923	703,998
WIA Adult Program - PY2012				
2812WIA000	WIA Adult Program - PY2012	17.258	1,304,900	931,004
2813WIA000	WIA Adult Program - PY2013	17.258	11,514,058	10,505,007
2814WIA000	WIA Adult Program - PY2014	17.258	20,308	6,515
WIA Youth - PY2012				
2812WIY000	WIA Youth - PY2012	17.259	65,209	65,209
2813WIY000	WIA Youth - PY2013	17.259	11,208,399	11,151,382
2814WIY000	WIA Youth - PY2014	17.259	428,561	425,140
WIA Dislocated Worker - PY2012				
2812WID000	WIA Dislocated Worker - PY2012	17.278	2,040,966	1,638,736
2813WID000	WIA Dislocated Worker - PY2013	17.278	10,051,845	9,698,555
2814WID000	WIA Dislocated Worker - PY2014	17.278	783,974	783,974
	Subtotal - WIA Cluster		37,418,220	35,205,522
Resource Administration Grant - 2014				
2814RAG000	Resource Administration Grant - 2014	17.273	1,240	-
2815RAG000	Resource Administration Grant - 2015	17.273	435	-
	Subtotal - 17.273		1,675	-
NEG				
2814NEG000	NEG	17.277	578,523	529,471
2815NEG000	NEG - JD	17.277	32,743	24,340
	Subtotal - 17.277		611,266	553,812
Unemployment Compensation Ex-Military Resource Grant				
2813UCX000	Unemployment Compensation Ex-Military Resource Grant	17.280	9,406	9,406
	Subtotal - 17.280		9,406	9,406
	Total - Texas Workforce Commission		39,783,797	37,315,370
Passed Through Texas Veterans Commission				
VES 13-28	Disabled Veterans' Outreach Program	17.801	340,189	319,677
	Total - Texas Veterans Commission		340,189	319,677
TOTAL U.S. DEPARTMENT OF LABOR			40,123,986	37,635,047

HOUSTON-GALVESTON AREA COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through the Texas Department of Transportation				
0912-00-363	Clean Cities/Vehicles - 2008	20.205	772,703	772,703
0912-00-362	Clean Cities/Vehicles - 2011	20.205	1,107,912	687,560
0912-00-467	Clean Cities/Vehicles - 2013	20.205	4,956,953	4,413,974
0912-00-357	Clean Air Action - Market	20.205	614,118	-
0912-00-459	Clean Air Action Marketing and Outreach	20.205	135,470	-
0912-00-475	Clean Cities/Vehicles - 2013	20.205	697,778	697,778
0912-00-486	Motorist Assistance	20.205	333,333	333,333
0912-00-481	Studet to Identify Operational Improvements	20.205	371,932	-
0912-00-462	Clean Air Action Marketing and Outreach	20.205	152,974	-
0912-00-491	Livable Centers Planning Studies	20.205	182,676	-
0912-72-030	Reg Commute Alter - 2007	20.205	1,393,323	1,393,323
0912-00-320	Safety Hot Spots	20.205	62,103	-
0912-00-395 TASK 1	Access Management Studies	20.205	271,316	-
0912-00-395 TASK 2	Planning and Feasibility Studies	20.205	80,698	-
0912-00-395 TASK 3	Subregional Planning Studies	20.205	161,619	-
0912-00-365	Commute Solutions - Staff 2010	20.205	185,375	-
0912-72-030	Commute Solutions - Telecommuting Program	20.205	47,689	-
0912-00-498 TASK 1	Regional Rideshare Carpool - Marketing and Outreach	20.205	315,799	-
0912-00-498 TASK 3	Regional Rideshare Carpool - Nuride	20.205	363,975	-
0912-00-367 TASK 1	Commuter Transit Pilot Program FY10	20.205	14,080	14,080
50-14XF0015	Administration - 2014	20.205	1,629,759	83,548
50-14XF0015	Data Development & Maintenance - 2014	20.205	1,598,397	-
50-14XF0015	Short Range Planning - 2014	20.205	896,390	-
50-14XF0015	Long Range Plan - 2014	20.205	1,873,963	159,648
50-14XF0015	Special Studies - 2014	20.205	190,238	-
50-15XF0015	Administration - 2015	20.205	421,706	-
50-15XF0015	Data Development & Maintenance - 2015	20.205	491,423	-
50-15XF0015	Short Range Planning - 2015	20.205	201,865	-
50-15XF0015	Long Range Plan - 2015	20.205	587,868	-
50-15XF0015	Special Studies - 2015	20.205	61,232	-
	Subtotal - 20.205		<u>20,174,667</u>	<u>8,555,948</u>
SPR - 0420(213) Work Program - Part 1	Reg Coordinated Planning	20.515	62,691	-
SPR-Travel Options Research	Commute Solutions SPR	20.515	119,269	-
	Subtotal - 20.515		<u>181,960</u>	<u>-</u>
584-EGF-8138	DWI Selective Traffic Enforcement-2014	20.600	71,748	71,748
585-EGF-8068	DWI Selective Traffic Enforcement-2015	20.600	18,999	18,999
	Subtotal - 20.600		<u>90,747</u>	<u>90,747</u>
	Total - Texas Department of Transportation		<u>20,447,374</u>	<u>8,646,695</u>
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>20,447,374</u>	<u>8,646,695</u>
ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs:				
2A-83440901-0	DERA Revolving Loan Program - ARRA	66.039	7,802,543	-
DE-00F42401-0	Clean Vessels for Texas Waters	66.039	352,038	351,418
	Subtotal - 66.039		<u>8,154,581</u>	<u>351,418</u>
MX-00D19614-0	Gulf of Mexico Program	66.475	10,847	-
	Subtotal - 66.475		<u>10,847</u>	<u>-</u>
	Total - Direct Programs		<u>8,165,428</u>	<u>351,418</u>
Passed Through the Texas Commission on Environmental Quality				
582-14-40163	Water Quality Management Planning - 2014	66.454	81,677	-
582-15-50104	Water Quality Management Planning - 2015	66.454	25,011	-
582-12-22310	GBEP - Cedar Bayou	66.454	98,290	1,750
	Subtotal - 66.454		<u>204,977</u>	<u>1,750</u>
582-14-40156	Bastrop Bayou-WQMP (319H)	66.460	43,105	-
582-14-40154	319 Trash Bash Storage	66.460	73,607	-
	Subtotal - 66.460		<u>116,712</u>	<u>-</u>
	Total - Texas Commission on Environmental Quality		<u>321,689</u>	<u>1,750</u>
Passed Through the Texas State Soil and Water Conservation Board				
10-08	Watershed Protection Plan - Cedar Bayou	66.460	264,032	48,550
11-10	Surface Water Quality Monitoring - San Bernard River	66.460	88,840	27,760
	Subtotal - 66.460		<u>352,872</u>	<u>76,310</u>
	Total - Texas State Soil and Water Conservation Board		<u>352,872</u>	<u>76,310</u>
	TOTAL ENVIRONMENTAL PROTECTION AGENCY		<u>8,839,989</u>	<u>429,478</u>
DEPARTMENT OF ENERGY				
Direct Programs:				
DE-EE0005979	Houston Zero Emission Delivery Vehicle Deployment	81.086	68,764	39,614
DE-EE0005978	Hydrogen Fuel-Cell Electric Hybrid Truck Demonstration	81.086	5,364	-
DE-EE0006092	Recipe for Fueling Diversity of Alternative Fuels	81.086	104,882	91,393
	Subtotal - 81.086		<u>179,010</u>	<u>131,007</u>
	TOTAL DEPARTMENT OF ENERGY		<u>179,010</u>	<u>131,007</u>

HOUSTON-GALVESTON AREA COUNCIL
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2014

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
DEPARTMENT OF EDUCATION				
2814ELA00	Passed Through the Texas Workforce Commission Adult Education and Literacy	84.002A	3,005,839	3,005,839
	Total - Texas Workforce Commission		3,005,839	3,005,839
TOTAL DEPARTMENT OF EDUCATION			3,005,839	3,005,839
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through the Texas Department of Aging and Disability Services				
539-11-0024-00001	Aging Title VII EAP - 2014	93.041	20,436	-
539-11-0024-00001	Aging Title VII EAP - 2015	93.041	4,697	-
	Subtotal - 93.041		25,133	-
539-11-0024-00001	Aging Title VII OAG - 2014	93.042	62,199	-
539-11-0024-00001	Aging Title VII OAG - 2015	93.042	31,120	-
	Subtotal - 93.042		93,319	-
539-11-0024-00001	Aging Title III, Part D - 2014	93.043	68,138	68,138
	Subtotal - 93.043		68,138	68,138
539-11-0024-00001	Aging Title III, Part B - 2014	93.044	1,388,781	1,111,930
539-11-0024-00001	Aging Title III, Part B - 2015	93.044	290,609	233,518
539-11-0024-00001	Aging Title III, Part C - 2014	93.045	1,693,948	1,131,846
539-11-0024-00001	Aging Title III, Part C - 2015	93.045	496,175	356,347
539-11-0024-00001	Aging NSIP - 2014	93.053	511,372	511,372
539-11-0024-00001	Aging NSIP - 2015	93.053	168,812	168,812
	Subtotal - Aging Cluster		4,549,697	3,513,825
539-11-0024-00001	Aging Title III, Part E - 2014	93.052	612,928	488,373
539-11-0024-00001	Aging Title III, Part E - 2015	93.052	147,615	77,456
	Subtotal 93.052		760,543	565,829
539-11-0024-00001	ATRA-MIPPA Priority 2 - 2014	93.071	28,288	-
539-11-0024-00001	ATRA-MIPPA Priority 2 - 2015	93.071	787	-
	Subtotal 93.071		29,075	-
539-11-0024-00001	Aging CMS Basic (04/01/13-03/31/14)	93.779	7,138	-
539-11-0024-00001	Aging CMS Basic (04/01/14-03/31/15)	93.779	103,877	-
	Subtotal - 93.779		111,015	-
539-11-0024-00001	OMB-MFPD - 2014	93.791	10,359	-
	Subtotal - 93.791		10,359	-
Total - Texas Department of Aging and Disability Services			5,647,279	4,147,792
Passed Through the Texas Workforce Commission				
2814TAN000	TANF Choices - 2014	93.558	10,559,809	10,555,150
2815TAN000	TANF Choices - 2015	93.558	2,299,161	2,220,000
2814NCP000	TANF E&T - Noncustodial Parent Empl - 2014	93.558	520,175	497,000
2815NCP000	TANF E&T - Noncustodial Parent Empl - 2015	93.558	202,093	193,262
2814WPA000	Employment Services - 2014	93.558	45,330	37,915
2815WPA000	Employment Services - 2015	93.558	65,793	58,879
	Subtotal - TANF Cluster		13,692,361	13,562,206
2814CCF000	Child Care CCDF - 2014	93.575	35,609,959	35,274,657
2814CAA000	CC Attendance Auto Services - 2014	93.575	614,701	614,701
2815CAA000	CC Attendance Auto Services - 2015	93.575	192,983	192,983
2814CCQ000	Child Care Quality - 2014	93.575	2,068,464	2,068,464
2815CCQ000	Child Care Quality - 2015	93.575	448,169	448,169
2814CCF000	Child Care (BAPA) - 2014	93.596	25,030,008	24,725,343
2815CCF000	Child Care (BAPA) - 2015	93.596	17,875,923	18,405,923
2814CCM000	Child Care Local Initiatives - 2014	93.596	14,513,920	14,513,920
2815CCM000	Child Care Local Initiatives - 2015	93.596	88,958	88,958
	Subtotal - CCDF Cluster		96,443,085	96,333,118
2815CCF000	Child Care SSBG - 2015	93.667	473,917	470,000
	Subtotal - 93.667		473,917	470,000
Total - Texas Workforce Commission			110,609,363	110,365,324
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			116,256,642	114,513,116
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through the Texas Department of Public Safety				
EMW-2012-SS-00018-S01	Homeland Security Grant Program - SHSP - 2012	97.067	112,599	-
13-SR 99012-01	Homeland Security Grant Program - SHSP - 2013	97.067	110,295	-
12-SR-99012-03	Homeland Security Grant Program - Management and Administrative 2012	97.067	51,831	-
13-SR 99012-02	Homeland Security Grant Program - Management and Administrative 2013	97.067	66,781	-
14-SR 99012-02	Homeland Security Grant Program - Management and Administrative 2014	97.067	34,388	-
	Subtotal - 97.067		375,894	-
Total - Texas Department of Public Safety			375,894	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			375,894	-
TOTAL EXPENDITURES OF FEDERAL AWARDS - PRIMARY GOVERNMENT			211,175,803	181,030,954

HOUSTON-GALVESTON AREA COUNCIL
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2014

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
DISCRETELY PRESENTED COMPONENT UNIT:				
U.S. DEPARTMENT OF COMMERCE				
Direct Programs:				
08-83-04760	Economic Development - Support for Planning Organizations	11.302	4,075	-
08-69-04356	Economic Adjustment Assistance - Revolving Loan Fund	11.307	<u>1,861,184</u>	-
	Total - Direct Programs		<u>1,865,259</u>	-
	TOTAL U.S. DEPARTMENT OF COMMERCE		<u>1,865,259</u>	-
	TOTAL EXPENDITURES OF FEDERAL AWARDS - DISCRETELY PRESENTED COMPONENT UN		<u>1,865,259</u>	-
	TOTAL EXPENDITURES OF FEDERAL AWARDS - REPORTING ENTITY		<u>213,041,062</u>	<u>181,030,954</u>
STATE PROGRAMS				
PRIMARY GOVERNMENT:				
OFFICE OF THE GOVERNOR-CRIMINAL JUSTICE DIVISION				
PS13-668	Criminal Justice Planning - 2014		163,369	-
PS14-689	Criminal Justice Planning - 2015		<u>87,239</u>	-
	Subtotal - Criminal Justice Planning		<u>250,608</u>	-
SF-14-A10-14719-13	Law Enforcement Training - 2014-2015		<u>239,211</u>	<u>154,866</u>
	Subtotal - Law Enforcement Training		<u>239,211</u>	<u>154,866</u>
SF-14-J20-26067-02	CJD Juvenile Mental Health Project 2014		97,720	-
SF-15-J20-26067-03	CJD Juvenile Mental Health Project 2015		<u>5,028</u>	-
	Subtotal - Juvenile Mental Health		<u>102,748</u>	-
	TOTAL OFFICE OF THE GOVERNOR-CRIMINAL JUSTICE DIVISION		<u>592,567</u>	<u>154,866</u>
TEXAS COMMISSION ON STATE EMERGENCY COMMUNICATIONS				
N/A	911 Emergency - 2013		4,332	4,332
N/A	911 Emergency - 2014		3,247,231	2,556,681
N/A	911 Emergency - 2015		<u>1,630,264</u>	<u>1,362,738</u>
	TOTAL TEXAS COMMISSION ON STATE EMERGENCY COMMUNICATIONS		<u>4,881,827</u>	<u>3,923,751</u>
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY				
Direct Programs:				
582-14-40582	Solid Waste - 2013 - 15		<u>820,703</u>	<u>478,496</u>
	Subtotal - Solid Waste		<u>820,703</u>	<u>478,496</u>
582-14-41844	Galveston Bay Plan Trash Bash - Bus		<u>5,000</u>	-
	Subtotal - Galveston Bay		<u>5,000</u>	-
582-13-30063	Galveston Bay Watershed - Bayou Preservation Association		<u>7,950</u>	-
	Subtotal - Bayou Preservation Association		<u>7,950</u>	-
582-12-13254 WO# 5	TMDL BIG 2014		190,352	-
582-12-13254 WO#6	TMDL Upper Oyster Waters 2014		38,548	-
582-14-42709 WO#2	TMDL BIG 2015		74,630	-
582-14-42709 WO#1	TMDL Upper Oyster Waters 2015		<u>2,205</u>	-
	Subtotal - TMDL		<u>305,735</u>	-
582-14-40086	Texas Clean Rivers - 2013/2015		<u>917,347</u>	<u>100,243</u>
	Subtotal - Clean Rivers		<u>917,347</u>	<u>100,243</u>
582-13-30338	Third Party TERP		<u>55,952</u>	<u>55,952</u>
582-12-13173	Drayage Truck Emissions		<u>318</u>	<u>318</u>
	Total - Direct Programs		<u>2,113,004</u>	<u>635,008</u>
Passed Through Harris County				
582-12-20273	Air Check Texas - 2014		1,283,289	1,234,499
582-12-20273	Air Check Texas - 2015		<u>236,838</u>	<u>212,800</u>
	Total - Air Check Texas - Harris County		<u>1,520,127</u>	<u>1,447,300</u>
Passed Through Fort Bend County				
582-12-20281	Air Check Texas - 2014		136,204	132,457
582-12-20281	Air Check Texas - 2015		<u>29,527</u>	<u>26,997</u>
	Total - Air Check Texas - Fort Bend County		<u>165,732</u>	<u>159,454</u>
Passed Through Brazoria County				
582-12-20280	Air Check Texas - 2014		114,371	42,757
582-12-20280	Air Check Texas - 2015		<u>9,410</u>	<u>8,656</u>
	Total - Air Check Texas - Brazoria County		<u>123,780</u>	<u>51,413</u>
Passed Through Galveston County				
582-12-20283	Air Check Texas - 2014		73,733	67,190
582-12-20283	Air Check Texas - 2015		<u>22,849</u>	<u>21,209</u>
	Total - Air Check Texas - Galveston County		<u>96,582</u>	<u>88,399</u>
Passed Through Montgomery County				
582-12-20282	Air Check Texas - 2014		236,568	169,072
582-12-20282	Air Check Texas - 2015		<u>29,285</u>	<u>27,183</u>
	Total - Air Check Texas - Montgomery County		<u>265,853</u>	<u>196,254</u>
	TOTAL TEXAS COMMISSION ON ENVIRONMENTAL QUALITY		<u>4,285,078</u>	<u>2,577,828</u>

HOUSTON-GALVESTON AREA COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
	TEXAS A&M AGRILIFE EXTENSION SERVICE			
TMDL-2014-13003-31030	Mill Creek Watershed Protection		28,636	-
	Total - Texas A&M AgriLife Extension Service		<u>28,636</u>	<u>-</u>
	TOTAL TEXAS A&M AGRILIFE EXTENSION SERVICE		<u>28,636</u>	<u>-</u>
	TEXAS DEPARTMENT OF AGING AND DISABILITY SERVICES			
539-11-0024-00001	State General Revenue - 2014		126,222	126,222
539-11-0024-00001	State General Revenue - 2015		110,558	56,571
539-11-0024-00001	OMB ALF Services - 2014		<u>93,757</u>	<u>-</u>
	TOTAL TEXAS DEPARTMENT OF AGING AND DISABILITY SERVICES		<u>330,537</u>	<u>182,793</u>
	TEXAS WORKFORCE COMMISSION			
2814SNE001	SNAP E&T - 2014		276,030	261,000
2814SNE000	SNAP E&T - 2014		279,262	256,095
2815SNE001	SNAP E&T - 2015		<u>800,000</u>	<u>720,000</u>
	Subtotal - SNAP E&T		<u>1,355,292</u>	<u>1,237,095</u>
2814RAG000	Resource Administration Grant - 2014		3,457	-
2815RAG000	Resource Administration Grant - 2015		<u>1,222</u>	<u>-</u>
	Subtotal - Resource Administration Grant		<u>4,679</u>	<u>-</u>
2814TAN000	TANF Choices - 2014		1,243,960	706,523
2815TAN000	TANF Choices - 2015		121,668	94,631
2814NCP000	TANF E&T - Noncustodial Parent Empl - 2014		<u>260,992</u>	<u>213,851</u>
	Subtotal -TANF Choices		<u>1,626,620</u>	<u>1,015,005</u>
2813CCP000	Child Care DFPS - 2013		(455)	(455)
2814CCP000	Child Care DFPS - 2014		5,883,261	5,875,219
2815CCP000	Child Care DFPS - 2015		<u>3,246,058</u>	<u>3,241,946</u>
	Subtotal - Child Care DFPS		<u>9,128,864</u>	<u>9,116,710</u>
2814AELA00	Adult Education and Literacy		<u>618,396</u>	<u>542,056</u>
2814CCF000	CCDF Child Care - 2014		7,632,206	7,557,237
2814CCM000	Child Care Local Initiatives - 2014		100,000	100,000
2815CCF000	CCDF Child Care - 2015		<u>4,042,647</u>	<u>3,310,688</u>
	Subtotal - Child Care		<u>11,774,853</u>	<u>10,967,925</u>
	TOTAL TEXAS WORKFORCE COMMISSION		<u>24,508,704</u>	<u>22,878,791</u>
	TOTAL EXPENDITURES OF STATE AWARDS - PRIMARY GOVERNMENT		<u>34,627,349</u>	<u>29,718,029</u>
	TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS - REPORTING ENTITY		<u>\$ 247,668,410</u>	<u>\$ 210,748,983</u>

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HOUSTON-GALVESTON AREA COUNCIL

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED DECEMBER 31, 2014

1 BASIS OF ACCOUNTING

The schedule of expenditures of federal and state awards is prepared on the modified accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources. Encumbrances are used during the year for budgetary control purposes and lapse at fiscal year end.

2 REPORTING ENTITY

H-GAC for purposes of the schedule of expenditures of federal and state awards includes all funds of the primary government. Also included is the Gulf Coast Economic Development Corporation, a discretely presented component unit of H-GAC

3 RECONCILIATION

Adjustments necessary to reconcile expenditures reported on the supplementary schedule of expenditures of federal and state awards to the basic financial statements at year end were as follows:

Total Grant Fund Expenditures	\$ 249,875,952
Add: Depreciation charged to grant programs	297,718
Add: Gulf Coast Economic Development Corporation federal expenditures	1,865,259
Add: EPA RLF reconciling items from notes 5 below	7,698,970
Less: In-Kind Expenditures	(9,286,724)
Less: Program Income	(30,275)
Less: Cash Match	(163,655)
Less: Expenditures funded by local grant revenues	(2,588,835)
Total Federal and State Schedule	<u>\$ 247,668,410</u>

4 CALCULATION OF FEDERAL AWARDS EXPENDED FOR EDA REVOLVING LOAN FUND

Expenditure of the EDA Revolving Loan Fund were calculated as follows:

Balance of RLF loans outstanding at 12/31/2014	\$ 1,467,758
Cash and investment balance at 12/31/2014	241,944
Administrative costs during the fiscal year	45,846
Unpaid principal of loans written off during the fiscal year	<u>105,637</u>
Total EDA Revolving Loan Fund Expenditures	1,861,185
Federal Participation Rate	<u>100%</u>
Total Federal Share of EDA Revolving Loan Fund Expenditures	<u>\$ 1,861,185</u>

5 CALCULATION OF FEDERAL AWARDS EXPENDED FOR EPA REVOLVING LOAN FUND

Expenditure of the EPA Revolving Loan Fund were calculated as follows:

Value of new loans made during 2014	\$ 875,566
Ending balance of loans made in previous years	4,198,388
Administrative costs during the fiscal year	103,573
Cash and investment balance at 12/31/2014	2,595,147
Unpaid principal of loans written off during the fiscal year	<u>29,869</u>
Total EPA Revolving Loan Fund Expenditures	7,802,543
Federal Participation Rate	<u>100%</u>
Total Federal Share of EPA Revolving Loan Fund Expenditures	<u>\$ 7,802,543</u>

6 FEDERAL PROGRAM TOTALS

Some programs include awards received from multiple federal funding grantors

Texas Department of Agriculture	\$ 15,385
General Land Office	19,756,638
Total CFDA #14.228	<u>\$ 19,772,023</u>
Texas Workforce Commission	\$ 996,962
Texas Veterans Commission	340,189
Total Employment Service Cluster	<u>\$ 1,337,151</u>
Texas Commission on Environmental Quality	\$ 116,712
Texas State Soil and Water Conservation Board	352,872
Total CFDA #66.460	<u>\$ 469,584</u>

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Houston-Galveston Area Council
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2014

I. Summary of Auditors' Results	
Financial Statements	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) 2-7 OMB Circular A-133?	None

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
SNAP E & T	10.561
Community Development Block Grant – IKE/Dolly Funding Disaster Recovery Program Non-Rental Housing Projects, IKE Admin Rental, Disaster Recovery Program Non-Rental Housing Projects – Chambers, IKE Single Family Rental and IKE Rapid Housing	14.228
WIA Cluster	
WIA Adult Program	17.258
WIA Youth Program	17.259
WIA Dislocated Worker	17.278
Economic Adjustment Assistance – Revolving Loan Fund	11.307
Employment Services Cluster	
Employment Service/Wagner-Peyser Funded Activities	17.207
Local Veterans' Outreach Program	17.801
Adult Education and Literacy	84.002A
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$3,000,000
2. Federal Single Audit - Auditee qualified as low-risk auditee?	Yes

Houston-Galveston Area Council
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended December 31, 2014

I. Summary of Auditors' Results (continued)	
State Awards:	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) UGMS?	None
Identification of major programs:	
Name of State Program or Cluster	CFDA Number
911 Emergency	N/A
Air Check Texas	N/A
SNAP E & T – Program and Administration	N/A
Adult Education and Literacy	N/A
1. Dollar Threshold Considered Between Type A and Type B Programs	\$979,610
2. State Single Audit - Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

There were no current year findings.

III. Federal and State Award Findings and Questioned Costs.

There were no current year findings or questioned costs.

IV. Status of Prior Year Findings

There were no findings in the prior year.

V. Corrective Action

Not applicable.