



2018 ANNUAL REPORT

Prepared for:
U.S. Small Business Administration
Houston District Office
8701 South Gessner, Suite 1200
Houston, Texas 77074

INTRODUCTION

The Houston-Galveston Area Local Development Corporation (H-GALDC) is a certified development company (“CDC”) that was created in the early 1980’s by the Houston-Galveston Area Council to promote economic development and job creation throughout the 13-county Upper Gulf Coast Region of Texas. This is primarily accomplished through the servicing of U.S. Small Business Administration 504 loans. Approximately fifteen years ago, the CDC’s charter was expanded to include all of Texas, however, the majority of H-GALDC’s business remains within the 13 counties (Harris, Fort Bend, Montgomery, Austin, Colorado, Waller, Galveston, Chambers, Liberty Brazoria, Wharton, Walker, and Matagorda) served by the Houston-Galveston Area Council. This annual report summarizes the activities of the H-GALDC from January 1, 2018 - December 31, 2018.

This report is divided into six tabs:

1. Economic Development Report
The Economic Development Report provides local economic information as well as analytical data on the impact of the CDC’s non-504 assistance to small business.
2. Operating Report
The Operating Report provides information on the H-GALDC’s membership and methods of operation.
3. Financial Report
The Financial Report includes the CDC’s financial statements, including the Balance Sheet, Income/Expense Statement and Change in Financial Position.
4. Analysis of 504 Employment Impact
The Analysis of 504 Employment Impact provides analytical data on the impact of H-GALDC’s assistance to small business and the status of its loan portfolio.
5. Report Compensation
6. Certification of Board of Directors
Written annual certification by each Board member that he or she has read and understands the requirements set forth in 13 CER 120.823.

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TAB 1

ECONOMIC **DEVELOPMENT** **REPORT**

TAB 1. ECONOMIC DEVELOPMENT REPORT

- A. The primary area of operations for the Houston-Galveston Area Local Development Corporation (“H-GALDC”) consists of the 13-county Greater Houston Metropolitan Area. This area includes the following counties: Austin, Brazoria, Chambers, Colorado, Fort Bend, Galveston, Harris, Liberty, Matagorda, Montgomery, Walker, Waller, and Wharton. Additionally, since 2003, the CDC charter allows H-GALDC to fund SBA 504 loans throughout the state, however, activities outside of a 100-mile radius in Houston are limited.
- B. The Houston-Galveston Area Local Development Corporation participates only in the SBA 504 program. The CDC is open to engaging in the Community Advantage program if new participants are allowed again.
- C. The Houston-Galveston Local Development Corporation participates in a Revolving Loan Fund through the EDA.

Revolving Loan Fund – Texas

- 1. Two (2) years administering the fund
- 2. Historical Loan Activity
 - a. 12 of 14 total loans funded prior to CDC’s administration
 - b. **Total - \$2,649,886**
- 3. Loans approved during 2018 – Two (2)
- 4. Total amount of revenue generated in 2018
 - a. **Total - \$64,833.49**
- D. In 2018, the CDC had no activity in non-lending programs.
- E. The CDC’s economic development strategy for the upcoming fiscal year and beyond started with the hiring of a Business Development Officer. A goal of H-GALDC is to increase the diversity of its portfolio, not only by industry, but geographically as well. Therefore, the BDO’s business development strategy focuses on the smaller communities within H-GAC’s 13-county region, promoting all of the resources available through H-GAC. This will brand H-GALDC as a one-stop shop for businesses and differentiate it from other CDCs. Promotion of H-GAC services also lends itself to greater connections in the community via other programs, and will help develop referral pipelines.

Additional efforts to serve its area of operations include networking with: local banks, Economic Development Corporations, universities, and entrepreneur-focused organizations. These connections lead to event sponsorships, speaking engagements, seminars, and other activities focused on educating business and financial leaders about the SBA 504 loan program, thereby increasing the visibility of H-GALDC and establishing it as an expert in the region.

The Houston-Galveston Local Development Corporation is considering the return of a former H-GALDC program known as the Community Enhancement Program. This program would provide grants to local governments for downtown beautification and other activities deemed beneficial to the economic development of the community.

Based on current activity and level of interest, H-GALDC is expecting four 504 loans during the upcoming fiscal year and projecting that number to increase as the above strategy gets implemented further.

TAB 2

OPERATING **REPORT**

Section A

Directors/ Committees

Subsection 1

Board of Directors

Requested information:

- a) Director's Name
- c) The director's current occupation, business address and business phone number

LDC Board 2018-2019

Two Directors and one alternate Director left. Two Directors and no new alternate Directors were appointed to the H-GALDC Board during 2018. A summary of the directors is included below.

BOARD OF DIRECTORS

*Indicates new member.

Officers are designated in bold font.

NAME	POSITION	PHONE
MISSY MALECHEK West Chambers County Chambers of Commerce 11340 Eagle Drive, Suite 4 P O Box 750 Mont Belvieu, TX 77580 missy@thewccccc.com	PRESIDENT	281-576-5440 281-831-6382 cell
DWIGHT SULLIVAN Galveston County Clerk 600 59 th Street, Ste 2001 Galveston, TX 77551 Dwight.sullivan@co.galveston.tx.us	VICE PRESIDENT	409-766-2210 409-457-7265 cell
JACKIE BRYAN SBA Underwriter- AVP First Service Credit Union 16430 Park Ten Place Houston, Texas 77084 jbryan@fscu.com	SEC/TREAS	713-676-5285 832-468-2382 cell
RICHARD BROWN* Liberty County Tax Assessor 1923 Sam Houston Liberty, TX 77575 Richard.brown@co.liberty.tx.us	DIRECTOR	936-336-4636
DC DUNHAM Lynn & Associates 312 Henderson Palacios, TX 77465 dc.dunham@lynn-associates.com	DIRECTOR	979-479-0165
CAROLYN GIBSON Executive Director City Development Corporation of El Campo 707 Fahrenthold El Campo, TX 77437 cgibson@elcampoeco.org	DIRECTOR	979-543-6727 979-320-7727 cell
CHARLES RUSHING Vice President KKL Enterprises, Inc. dba Abuse Control	DIRECTOR	936-577-0151

NAME	POSITION	PHONE
7 Robinson Spur Huntsville, TX 77320 kkline@wt.net		
COLLEEN MCGRATH Vice President/SBA Underwriter Icon Bank 7908 N Sam Houston Pkwy W, Ste100 Houston, TX 77064 cmcgrath@iconbanktx.com	DIRECTOR	281-944-2083
SALIM NATHANI* Benzer Tax and Business Services, LLC 12946 Dairy Ashford, Suite 330 Sugar Land, Texas 77478 salim@benzertax.com	DIRECTOR	713-979-2310
BRANDI DOWNEY DiverseCity Realty 2525 Robinhood, Ste 108 Houston, TX 77005 brandi@diversecity.us	ALTERNATE	832-978-1408 cell
VACANT	ALTERNATE	
Vacant	ALTERNATE	

Former Members:

Kim Meloneck, Executive Director, Sealy EDC
Beverly Layne, SBA Lending, Prosperity Bank
Wendy Ghormley, SBA Lending, Texas First Bank

Requested information:

- c) Area of each director's expertise
- e) Board officer role

CDC Board of Directors Membership Composition

Director's Role & Committee Membership					Director's Background & Expertise					
No.	Director's Name		Voting (Y/N)	Loan (Y/N)	Commercial Lending	Workforce, Community or Economic Development	Financial Risk Management	Corporate Governance	Legal Issues relating to Commercial Lending	Internal Controls
1	Missy Malechek	President	Y	Y		X		X		
2	Dwight Sullivan	Vice Pres	Y	Y			X	X		
3	Jackie Bryan	Sec/Treas	Y	Y	X		X			
4	Richard Brown	Director	Y	Y			X			X
5	DC Dunham	Director	Y	Y		X				
6	Carolyn Gibson	Director	Y	Y		X		X		
7	Charles Rushing	Director	Y	Y	X	X	X	X	X	X
8	Colleen McGrath	Director	Y	Y	X		X			
9	Salim Nathani	Director	Y	Y	X	X	X	X		
10	Brandi Downey	Director	Y	y			X			X

Board Members city/county and residence/work

Director's Name	City/County Residence	City/County Work
Richard Brown	Dayton/Liberty	Liberty/Liberty
Missy Malechek	Mont Belvieu/Chambers	Mont Belvieu/Chambers
Jackie Bryan	Houston/Harris	Houston/Harris
Brandi Downey	Houston/Harris	Houston/Harris
DC Dunham	Palacios/ Matagorda	Bay City/Matagorda
Carolyn Gibson	El Campo/ Wharton	El Campo/ Wharton
Colleen McGrath	Houston/Harris	Houston/Harris
Salim A. Nathani	Sugar Land/Fort Bend	Sugar Land/Fort Bend
Charles Rushing	Huntsville/Walker	Huntsville/Walker
Dwight Sullivan	League City/Galveston	Galveston/Galveston

Subsection 2

Identification of Close Relatives

Identification of “Close Relatives”:

There are no known relationships between Directors and/or CDC employees that are defined as “close relatives”

Subsection 3

CDC Board Meetings

Requested items below:

- a) Dates of Board meetings during 2018
- b) Names of Board members present at each meeting
- d) N/A – no loans were approved during 2018
- e) Meeting minutes

CORPORATE MEETINGS MINUTES

The H-GALDC conducted six Board meetings and two Membership meetings during 2018. Minutes that include meeting dates, Board Members that were present that include years of Commercial Lending experience, and a listing of borrower requests approved in those meetings are included below.

BOARD MEMBERS

Missy Malechek, Community Organization
Dwight Sullivan, Local Government
Jackie Pottinger, Commercial Lending (15 years)
Beverly Layne, Commercial Lending (20 years)
DC Dunham, Local Government
Colleen McGrath, Commercial Lending (18 years)
Carolyn Gibson, Local Government
Kim Meloneck, Local Government
Charles Rushing, Small Business
Richard Brown, Finance
Salim Nathani, Small Business

BOARD MEETING MINUTES

Houston-Galveston Area Local Development Corporation
LDC Board Meeting
Via Email
January 17, 2018

Present: Carolyn Gibson, DC Dunham, Beverly Layne, Colleen McGrath, Missy Malechek, Kim Meloneck, Jackie Pottinger, Dwight Sullivan.

The LDC Board approved (via email) an amended Resolution of the Board of Directors of Houston-Galveston Area Local Development Corporation *Regarding Loan Closings, Sales of 504 Debentures and Other Activities Associated with Funding Small Business Loans*. The resolution adds signature authority to Anita Kendrick.

Houston-Galveston Area Local Development Corporation
LDC Board Meeting
Via Email
March 27, 2018

Present: Carolyn Gibson, DC Dunham, Beverly Layne, Colleen McGrath, Missy Malechek, Kim Meloneck, Jackie Pottinger, Dwight Sullivan.

Absent: Charles Rushing

H-GAC staff: La Tisha Venters, Judy Przyborski.

The following documents were distributed and approved:

LDC Financials ending 12/31/2017

LDC Minutes from previous meetings:

- May 30, 2017 – designating signature authority to Chuck Wemple.
- June 9, 2017 – response letter to SBA and revised policies
- September 6, 2017 – Mary Kropp contract approval
- November 16, 2017 – Texas United Volleyball Club approval
- January 17, 2018 – Anita Kendrick signature authority

The H-GALDC mid-year meeting will be held Thursday, July 12, 2018, location to be determined.

La Tisha Venters stated we currently have a loan in underwriting from Texas First Bank and hope to present for approval at our next meeting.

Houston-Galveston Area Local Development Corporation
LDC Board
Via Email
May 3, 2018

Present: DC Dunham, Carolyn Gibson, Beverly Layne, Missy Malechek, Colleen McGrath, Kim Meloneck, Jackie Pottinger, Dwight Sullivan.

Absent: Charles Rushing.

H-GAC staff: La Tisha Venters, Judy Przyborski.

The below respondents have bid for the Independent Loan Review contractor. They are listed in order of their ranking. The ranking is determined by applicant experience, method and price.

1. Power Steering Unlimited (performed the last several H-GALDC reviews)
2. Larry Porterfield (has performed only one other CDC review)
3. SBA Simplified (price was more than double that of other respondents)

Based on the fact that Mary Kropp is familiar with the organization and portfolio, as well as pricing structure, it was recommended to engage Power Steering Unlimited for the review.

Power Steering Unlimited ranked #1 of the respondents when measured by experience and method.

LDC Board approved to engage with Power Steering Unlimited for Independent Loan Review, via email.

Houston-Galveston Area Local Development Corporation
LDC Board Meeting
Via Email
July 2, 2018

Present: Carolyn Gibson, DC Dunham, Beverly Layne, Colleen McGrath, Missy Malechek, Kim Meloneck, Dwight Sullivan.

Absent: Jackie Pottinger, Charles Rushing.

The LDC Board approved (via email) an amended Resolution of the Board of Directors of Houston-Galveston Area Local Development Corporation *Regarding Loan Closings, Sales of 504 Debentures and Other Activities Associated with Funding Small Business Loans*. The resolution replaces La Tisha Venters signature authority with Ronnie Barnes, and also adds Jalkeetna Brady.

Houston-Galveston Area Local Development Corporation

LDC Board

Teleconference - 10:00 a.m.

October 16, 2018

Present: Richard Brown, DC Dunham, Carolyn Gibson, Missy Malechek, Colleen McGrath, Salim Nathani, Jackie Pottinger, and Dwight Sullivan.

Absent: Charles Rushing.

H-GAC staff: Omar Fortune, Timothy Oyewale, Judy Przyborski.

Introduction: Omar Fortune, new H-GALDC Program Manager, started in the banking industry, dealing with businesses to become compliant. He managed workforce development for 15 years. Joining the LDC is a new territory, but Mr. Fortune is excited about the opportunities and is looking forward to working with the LDC.

Approve Previous Minutes: The following minutes were approved as distributed.

March 27, 2018 – approval of previous minutes

May 3, 2018 – approval of Independent Loan Review

July 2, 2018 – approval of signature resolution

Signature Resolution: The LDC Board approved an amended Resolution of the Board of Directors of Houston-Galveston Area Local Development Corporation *Regarding Loan Closings, Sales of 504 Debentures and Other Activities Associated with Funding Small Business Loans*. The resolution will add signature authority for Omar Fortune, and delete Jalkeetna Brady.

New H-GALDC Website: The new H-GALDC website (www.hgaldc.com) is up and running. The old website was outdated and embedded within H-GAC. There are a number of improvements and additions and the site is very user-friendly. Board members are encouraged to take a look and offer comments and/or suggestions. Board members suggested that their names and contact information be added to the site as a way to substantiate and add additional support to the H-GALDC. Our webmaster will make these updates.

H-GALDC Corporate Meeting: The December H-GALDC Corporate Membership meeting will be held December 6, at Café Piquet. Meeting notice and agenda will be emailed at a later date.

Challenges: Omar Fortune acknowledged a need to stabilize staffing. LDC has suffered and we need to recruit and retain experienced employees. Salim Nathani asked for the root cause of staff turnaround; are exit interviews conducted? Mr. Fortune explained that H-GAC's HR performs exit interviews and LDC is not part of that process. This is a government corporation. Past LDC staff came from banking and were not

able to adapt. Existing staff will have external training opportunities and will be growing and developing in current roles. Resources will be put together to stabilize staff and prevent turnover.

Mr. Fortune stated the LDC needs to re-establish the reputation and develop relationships among the lending institutions to bring in opportunities. We have had five (5) loans in five (5) years – far below requirements. It is critical to have business development staff in place. It is crucial to get out and meet with communities and SBDC's. The LDC is developing a schedule and gathering a list of stakeholders to meet with and promote the LDC. Richard Brown will be happy to introduce LDC staff in the Liberty area. Salim Nathini proposed identifying 3-4 bullets of strategic plans to focus on accomplishing within the next year. Missy Malechek suggested quarterly updates, to include the loan status of new and potential loans.

Vacancies: There are currently two (2) vacancies in the LDC department.

The Loan Coordinator duties include underwriting, credit risk rating, and handling challenging loan issues, such as liquidations and delinquent loans. The position will also be responsible for some servicing, packaging and administrative duties. Committee members expressed concerns about the salary. H-GAC human resources staff performs routine a salary analysis and will offer a competitive salary for the coordinator position. Committee members stated that we need to find the right talent pool. Omar asked for referrals from committee members. Omar will also work with the public workforce system to identify quality candidates. We are working on posting the position and will share information accordingly.

The LDC is exploring the option of procuring the Business Development Officer role as a contract opportunity. The draft Request for Proposal has been distributed to several partners and stakeholders for comments and recommendations of potential bidders. After evaluating the feedback, H-GAC staff will determine if we will proceed with the Request for Proposal, a traditional job posting, or a combination of both.

LDC and EDA RLF Committees: Omar Fortune stated the H-GAC's Community and Environmental department oversees the Gulf Coast Economic Development District (GCEED) and Economic Development Administration (EDA). Over the years, the GCEED has disbursed loans to several businesses throughout the 13-county region. The loans were first used to provide financial relief to businesses impacted by Hurricane Ike. As companies, paid back their loans a Revolving Loan Fund (RLF) was developed to grant new loans to additional companies. The additional loans have been disbursed to companies who were not necessarily impacted by a disaster.

Currently, the RLF committee oversees these loans and the H-GALDC staff provides the staff support. At this time, \$280,000 remains with \$250,000 recently requested as a bridge loan for a potential 504/ 7A project. If this gets approved, \$30,000 will remain. The RLF committee is largely inactive, with low levels of participation and several committee member vacancies. Currently five (5) RLF loans are in the portfolio. Mr. Fortune suggested merging the LDC Board with the EDA RLF committee. Mr. Fortune previously spoke with H-GAC Executive Director, Chuck Wemple, who concurs with the suggestion.

President Malechek motioned to merge the LDC Board with the EDA RLF committee; seconded by DC Dunham. It was approved unanimously.

Questions/Comments: Richard Brown asked about board orientation. He is a new member and would like to know more about the LDC. Mr. Fortune is looking into board training and will follow-up with President Malechek.

Adjournment: Meeting was adjourned at 10:55 a.m.

Houston-Galveston Area Local Development Corporation
LDC Board
Via Email
November 8, 2018

Present: Richard Brown, DC Dunham, Carolyn Gibson, Missy Malechek, Colleen McGrath, Salim Nathani, Jackie Pottinger, and Dwight Sullivan.

Absent: Charles Rushing.

H-GAC staff: Ronnie Barnes, Omar Fortune, Timothy Oyewale, Judy Przyborski, Chuck Wemple.

Omar Fortune expressed appreciation for participation in the October 16th LDC Board meeting. It was a fantastic meeting filled with lively, thoughtful discussion. There are a few action items, which the H-GALDC staff is diligently working on and we plan to have updates to you soon.

The October 16, 2018 minutes were approved as distributed.

A couple of events for LDC invitation.

- Our friends at the Houston Association of Guaranteed Government Lenders (HAGGL) have invited us to attend their annual holiday luncheon on Wednesday, December 5th from 11am – 2pm. The event will take place at the Sugar Land Marriot Town Square located at 16090 City Walk, Sugar Land, TX 77479. We have purchased a table and would be honored if you could join us as we network with colleagues across our industry.
- The following day, Thursday, December 6th, our H-GALDC Corporate Members meeting will take place at Café Piquet (5757 Bissonnet, Bellaire, TX 77401). A calendar invite has been sent. We will follow-up with an agenda closer to the meeting date. Your support of the H-GALDC and participation in our corporate meeting is critical to our success and we look forward to seeing you there.

CORPORATE MEMBERSHIP MINUTES

HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION CORPORATE MEMBERSHIP MEETING MINUTES July 12, 2018

The July 12, 2018 H-GALDC Corporate Membership Meeting was held at Fadi's Mediterranean Grill, 12360 Westheimer, Houston, TX. The meeting was called to order at 12:20 p.m. Since there was no quorum, action items were approved via email.

LDC Board and Members in attendance were: Richard Brown, Carolyn Gibson, John Isom, Missy Malechek, Salim Nathani, Jackie Bryan, Charles Rushing, Shannan Reid, Dwight Sullivan.

Proxy: Brandi Downey, Gary Henderson, Mike Hoskins, Colleen McGrath.

Absent: Brad Burtschell, Elfis Cottingham, Sarah Cerrone, DC Dunham, Larry Smith.

H-GAC and H-GALDC staff in attendance: Ronnie Barnes, Jalkeetna Brady, John Ferro, Nancy Haussler, Lourdes McIntyre, Arathi Nayak, Gwen Norman, Timothy Oyewale, Judy Przyborski, Chuck Wemple.

Guests in attendance: Scott Actkinson (Statesman).

Welcome and Introductions: President Missy Malechek welcomed everyone. Introductions were made.

Remarks: Chuck Wemple welcomed everyone and expressed appreciation to all those who contribute to the LDC program. La Tisha Venters is no longer with the LDC. She accepted a position with another company. Ronnie Barnes, newly appointed Director of Public Services, will be working with the LDC going forward. Procurement for the Business Development Officer has gone out today. H-GAC is fully committed to the LDC department. Mr. Wemple stated that the LDC is near and dear to him. He then thanked everyone for coming.

Staff Report: Ronnie Barnes reiterated, as Chuck stated, we are working to fill vacancies. Job positions have been forwarded to H-GAC's Human Resources. The LDC portfolio is at 158 loans totaling \$61million. Three (3) loans are in process with three (3) prospect loans. Mr. Barnes acknowledged LDC staff, and also introduced Public Services staff, who will be helping LDC staff in the interim. Mr. Barnes stated we are thirty days from developing a new H-GALDC website. The website design will have new on-line tools, such as payment information, and a portal to capture prospect information. The Strategic Marketing Plan will help with marketing. Mr. Barnes talked a little about the services of the Public Services department. There are about 750 contractors, many are dealership franchises. They are encouraged to use local dollars. About 30% of activity is in the H-GAC region. Mr. Barnes is excited for the opportunity to work with the LDC.

Election of Board/Alternates: President Malechek noted there is no quorum today. The ballots will be emailed to the membership for board election.

NOTE: The ballots were emailed to H-GALDC members July 13. Wendy Ghormley requested to be removed from the ballot. Revised ballots were emailed July 30, to include DC Dunham, who was inadvertently excluded. Voting was held via email.

The LDC is governed by nine (9) board members and two or more (2+) alternates, elected annually from the members of the H-GALDC Corporate Membership. These elected members serve as the LDC Board of Directors. Members are elected to serve for one year and meet by teleconference to review and approve loans; and meet in person twice per year. The following were elected to serve on the 2018-2019 LDC Board of Directors (Loan Committee):

Richard Brown	Salim Nathani
DC Dunham	Jackie Pottinger
Carolyn Gibson	Charles Rushing
Missy Malechek	Dwight Sullivan
Colleen McGrath	

The following was elected to serve as Alternate Member:

Brandi Downey

Minutes of December 14, 2017: President Malechek stated that the minutes of December 14, 2017 were distributed prior to the meeting. No comments or changes were noted. The minutes were approved as distributed, via email.

Financial Report: Nancy Haussler, Chief Financial Officer, presented the LDC financials ending June 30, 2018. She is happy to report there is an uptick in revenues. Unreserved funds are \$2.6 million, with a total fund balance of \$2.7 million.

Other Business: There were no further comments or business.

President Malechek expressed appreciation and noted the importance of member service. She then thanked everyone for coming.

Adjournment: 12:40 p.m.

**HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION
CORPORATE MEMBERSHIP MEETING
MEETING MINUTES
December 6, 2018**

The December 6, 2018, H-GALDC Corporate Membership Meeting was held at Café Piquet, 5757 Bissonnet, Bellaire, Texas. The meeting was called to order at 11:10 a.m.

LDC Board and Members in attendance were: James Bridges, Richard Brown, Carolyn Gibson, John Isom, Missy Malechek, Salim Nathani, Jackie Pottinger-Bryan, Charles Rushing, Dwight Sullivan.

Proxy by email: Brandi Downey, DC Dunham, Gary Henderson, Mike Hoskins, Larry Smith.

Absent: Sarah Cerrone, Brad Burttschell, Elfis Cottingham, Colleen McGrath.

H-GAC and H-GALDC staff in attendance: Carrington Barfield, Ronnie Barnes, Jacqueline Carter, Omar Fortune, Nancy Haussler, Lourdes McIntyre, Arathi Nayak, Timothy Oyewale, Santosh Puttappa, Judy Przyborski.

Guests in attendance: Mike Cruz (Statesman), Cade Cyr (Statesman), Anthony Hernandez (Statesman), Tasha Harvey (Advantage Capital), Sonia Maldonado (SBA), Marlon Mitchell (Houston Business Development Inc.), Dorian Cockrell (United Way), Samad Hinton (Lone Star College), Sharron Powell (Gulf Coast Workforce Board), Kim Petersen (Gulf Coast Workforce Board).

Welcome: President Malechek welcomed everyone. Self-introductions were made.

Remarks: Ronnie Barnes welcomed everyone. Since we last met, H-GAC has reorganized. The LDC is now under Public Services. H-GAC hired Omar Fortune, the new LDC manager. The LDC also launched the new H-GALDC website (hgaldc.com).

As of today, there have been fifty-five (55) SBA504 loans in the State of Texas, with eighteen (18) of those in the Houston area. We are prepared to get to the counties outside the Houston area. We look forward to working with you all. There are a number of workforce people here today. We are looking to build capacity with our workforce group. We are looking into partnerships and opportunities to work with financial institutions. Mr. Barnes stated Chuck Wemple could not be here today, but sends his regards.

Staff Report: Omar Fortune, new LDC manager, welcomed everyone. He noted that there is a diverse group here today. Mr. Fortune shared a little of his background. He stated he was born and raised in New York. His first job was with JPMorgan Chase, in Houston. Because he wanted to give back to the people, he worked with workforce development for 15 years before moving to LDC, and he is excited to be here. He shared high-level details regarding the LDC's history and challenges and provided an overview of solutions that will be implemented to mitigate those challenges. He thanked everyone for coming today.

Approval of Minutes: The minutes of the July 12, 2018 Corporate Board meeting were approved as distributed. DC Dunham abstained.

Financial Report: Nancy Haussler, H-GAC Chief Financial Officer, presented the LDC financials ending November 30, 2018. Total assets are almost \$3 million, with \$2.7 million unreserved. Total revenues are \$449,000, with total expenses of \$412,000. Ms. Haussler is happy to report the LDC starting to create revenue and is operating in the black.

The November 30, 2018 LDC financials were accepted as distributed. Moved to accept as presented by Carolyn Gibson; seconded by Dwight Sullivan.

Statesman Business Advisors: Statesman Business Advisors is a key partner and has performed packaging, underwriting, and consulting services for the LDC for many years. Their contract expires December 31, 2018. The Amendment to Contract allows up to four (4) additional years. The contract extension was approved for an additional four years. Carolyn Gibson moved to extend the Statesman Business Advisors contract; seconded by Dwight Sullivan.

Statesman is currently working on two (2) loans for H-GALDC – Toddy Blends and Texas United Volleyball.

Other Remarks: President Malechek stated the H-GALDC Corporate Member roster has been distributed. There are a few vacancies. She asked everyone to send suggestions of others who may be interested in joining the H-GALDC.

No other business was noted.

President Malechek thanked everyone for coming.

Adjourn: The meeting adjourned at 11:45 p.m.

Requested item below:

- c) Board members with commercial lending experience and other expertise

CDC Board of Directors Membership Composition

[illegible]

Subsection 4
Executive Committee

and

Subsection 5
Executive Committee Minutes

Executive Committee and Executive Committee Minutes

The H-GALDC does not have an Executive Committee; therefore, there are no Executive Committee minutes.

Subsection 6

Loan Committee

and

Subsection 7

Loan Committee Meetings

Loan Committee and Loan Committee Meetings

The H-GALDC Board of Directors also serves as the Loan Committee. Please see Subsection 1. Board of Directors and Subsection 3. CDC Board Meetings for additional information.

Section B

Professional Staff

Subsection 1

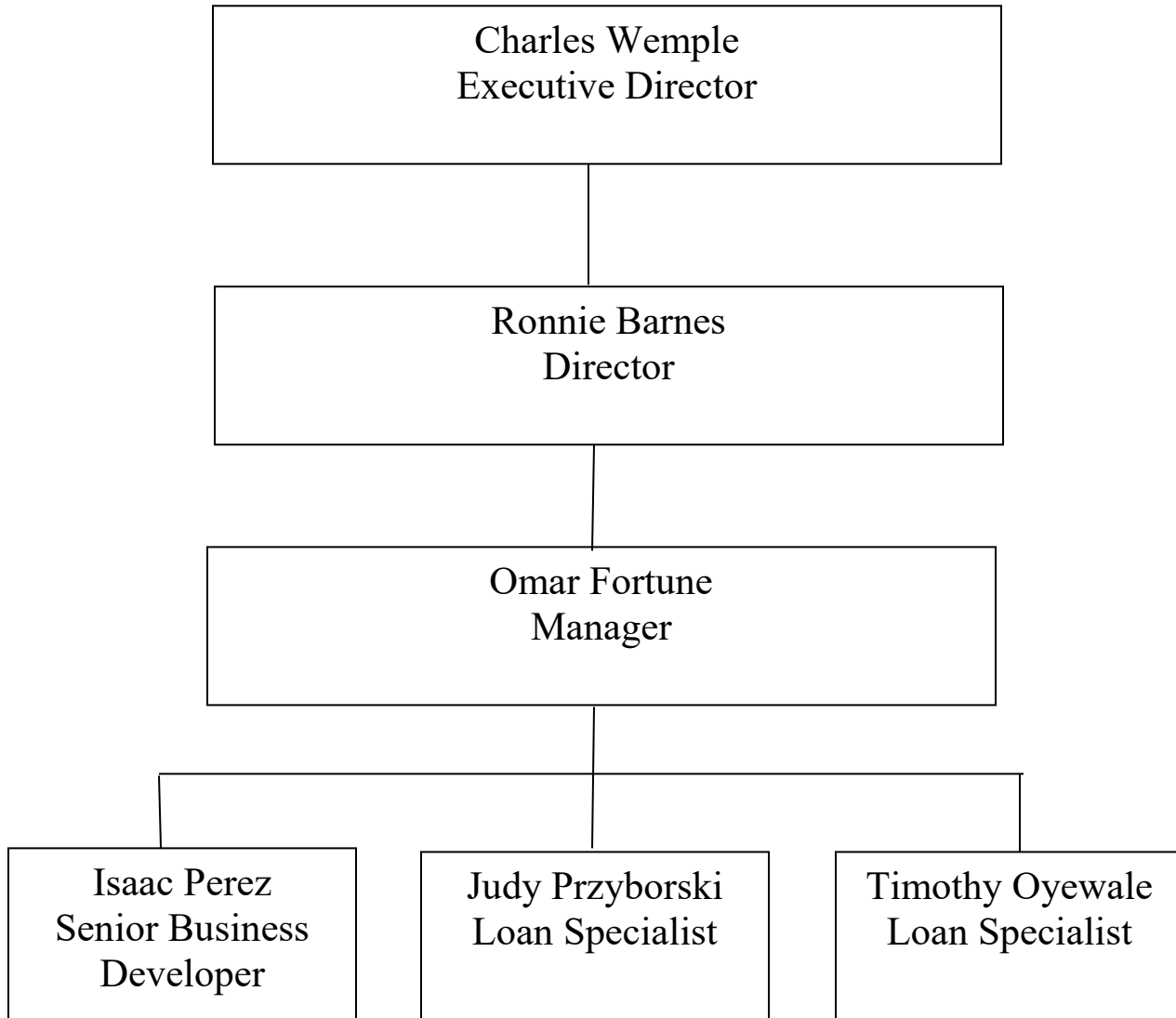
Organizational Chart

and

Subsection 2

CDC Staff Profiles

H-GALDC STAFF ORGANIZATIONAL CHART



H-GALDC STAFF PROFILES

- Charles Wemple: Executive Director of H-GAC & H-GALDC
Mr. Wemple is the Executive Director for the Houston-Galveston Area Council, the voluntary association of local governments that considers important issues and collaborates on solving area wide problems. With over 25 years of experience working in the private, non-profit and government sectors, he directs the professional staff of a regional council serving 150 local government members, a service area of 12,500 square miles, and an annual operating budget of over \$250,000,000 and programming responsibilities for over \$1 billion dollars in services and pass through grants. H-GAC provides comprehensive intergovernmental services to its members in programs ranging from aging to water quality. Its program and fiscal monitoring responsibilities include programs in aging, emergency communications, solid waste management, transportation planning, and economic and workforce development.
- Ronnie Barnes: Public Services Department Director
With 35 years of public administration experience, Mr. Barnes is the director of the Public Services Department of H-GAC. The department includes the HGACBuy Cooperative and Energy Purchasing Programs which helps members by executing competitively priced contracts for goods, services and electricity commonly used by local governments; the Criminal Justice and Law Enforcement Training Programs, which provide support, training, technical assistance and equipment to communities, police departments and officers; and the Local Development Corporation, which supports economic development through low-cost, fixed rate commercial real estate financing to help small businesses grow and expand.
- Omar Fortune: Operations Manager
Mr. Fortune has over 15 years of experience in workforce and economic development programs and 8 months of experience with the Local Development Corporation. He manages the day-to-day operation of the Local Development Corporation and oversees all areas of production, operations and administration of the loan program. He supports staff with marketing, servicing, advanced actions, and program compliance as well as interfaces with H-GAC management, SBA offices, third party lenders, economic development corporations, local government officials and other stakeholders.

- Isaac Perez: Senior Business Developer
Mr. Perez has more than 6 years of experience as a business developer with the Houston-Galveston Area Council and 4 months of experience with the Local Development Corporation. He is responsible for generating a variety of loan opportunities by partnering with banks, small business development centers, economic development groups, chambers of commerce, industry associations, local governments and other entities. He is tasked with planning, hosting and leading marketing and training events related to the SBA 504 program, other loan opportunities, and important small business topics. Additionally, Mr. Perez updates and maintains all marketing and outreach materials, the H-GALDC website, and social media profiles.
- Judy Przyborski: Loan Specialist (75% servicing, 25% administrative)
Having nearly 15 years' experience with the Local Development Corporation, Ms. Przyborski provides general and advanced servicing actions for borrowers. This includes answering customer questions and processing actions regarding loans, payments, balances and insurance requirements as well as taking action on loan modifications, subordinations, assumptions and liquidations and performing credit risk analysis for individual loans. Her administrative tasks involve processing prepayments, updating borrower insurance information, preparing subcontracts, coordinating payments for loan packaging, referral and legal fees to closing contractors, maintaining administrative files, tracking deposits made into the CDC account, and providing staff support for loan committee and corporate meetings.
- Timothy Oyewale: Loan Specialist (75% servicing, 25% packaging)
Mr. Oyewale has 10 years of experiencing in the lending industry and 3 years of experience with the Local Development Corporation. He packages loans by gathering the necessary documents to submit to underwriting and coordinating with the Business Developer to ensure a complete package is submitted to the Loan Committee and SBA for approval. Mr. Oyewale also provides general and advanced servicing actions for borrowers. This includes answering customer questions and processing actions regarding loans, payments, balances and collecting business financial information as well as taking action on loan modifications, subordinations, assumptions and liquidations and performing credit risk analysis for individual loans.

Section C

Contracts

Subsection 1

Contract with Statesmen Business Advisors



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MAY 25 2017

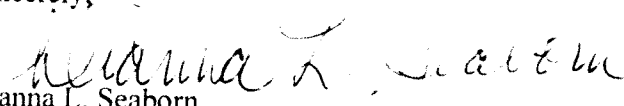
Jack Steele
Houston Galveston Area Local Development Company
P.O. Box 22777
Houston, TX 77227-2777

Dear Mr. Steele:

SBA has approved the contract between Houston Galveston Area Local Development Company and Dana Statesman Business Advisors. Please feel free to engage the services to be provided.

We thank you for your continued support of small business. If you have any questions, please contact Warren E. Boyd, Jr., Financial Analyst, at 202-205-7534 or via e-mail at warren.boyd@sba.gov.

Sincerely,



Dianna L. Seaborn

Director
Office of Financial Assistance

cc: Timothy D. Jeffcoat, District Director, Houston District Office
Hien D. Nguyen, Director, Sacramento Loan Processing Center
Joel A. Stiner, Director, Fresno Commercial Loan Servicing Center
Linda T. Rusche, Director, Office of Credit Risk Management



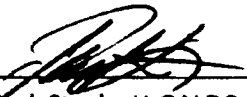
Amendment to Contract

This Amendment is made by H-GALDC and Statesman Business Advisors, parties to the Contract, and will serve to define the Contract term listed in the last paragraph of the attached.

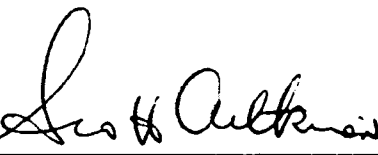
The Contract is amended as follows:

"This agreement for the period January 1, 2017 through December 31, 2018, and may be extended upon agreement of both parties for up to four (4) additional years. H-GALDC may terminate this agreement for convenience at any time with ten (10) days' notice. The agreement may also otherwise be amended or terminated upon the concurrence of both parties."

Except as set forth in this Amendment, the Contract is otherwise unaffected and shall continue in full force and effect in accordance with its terms. If there is conflict between this Amendment and the Contract or any earlier Amendment, the terms of this Amendment will prevail.

By: 
Jack Steele, H-GALDC

Date: 11-24-17

By: 
Scott Actkinson, Statesman Business Advisors

Date: 4/24/17



RESOLUTION

PROFESSIONAL SERVICES CONTRACT WITH STATESMAN BUSINESS ADVISORS, LLC.

WHEREAS, the Houston-Galveston Area Local Development Corporation desires to enter into a contract with Statesman Business Advisors, L.L.C. to provide SBA 504 loan packaging, loan eligibility determination, credit analysis, and other consulting type services, and SBA 504 loan development;

WHEREAS, this contract meets all terms and conditions set forth by the SBA;

WHEREAS, Statesman Business Advisors is an independent contract to H-GALDC for the purpose of development of prospective 504 loan candidates and applications;

WHEREAS, this agreement is for the two-year period, January 1, 2017 to December 31, 2018.

WHEREAS, the contract is in compliance with 13 CFR §120.824 and 120.825 and SBA Loan Program Requirements;

WHEREAS, the contract is subject to pre-approval and yearly review by SBA;

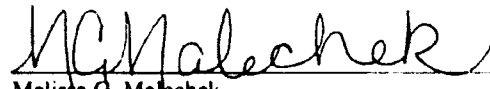
WHEREAS, submission of the contract with the Annual Report is required.

NOW, THEREFORE, BE IT RESOLVED, the Board of Directors of the Houston-Galveston Area Local Development Corporation hereby approves a contract with Statesman Business Advisors, L.L.C.

UNANIMOUSLY PASSED AND APPROVED, this 12th day of January, 2017 by the

BOARD OF DIRECTORS
HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION

APPROVED:


Melissa C. Malechek
H-GALDC Board President

ATTEST:


La Tisha Venetis
H-GALDC Operations Manager



January 1, 2017

Mr. Scott Actkinson
Statesman Business Advisors, LLC
1900 West Loop South, Suite 1010
Houston, Texas 77027

Dear Mr. Actkinson:

This letter, upon your acceptance, will constitute an agreement between Statesman Business Advisors, LLC (Statesman) and the Houston-Galveston Area Local Development Corporation (H-GALDC) to provide the following services: A) packaging of U.S. Small Business Administration (SBA) 504 loans; (B) providing loan eligibility determination, credit analysis, and other consulting type services; and, (C) SBA 504 loan development.

A. Loan Packaging

Loan packaging services will be provided by Statesman on a fee-for-service basis at a rate of \$100.00 per hour on each application. This fee will be capped at \$3,500 per loan. These services will include, but not necessarily be limited to:

1. Review and processing of loan application and other supporting materials received from H-GALDC.
2. Performance of necessary and reasonable communications with the private lender, borrower, SBA and H-GALDC staff to collect any other information or materials necessary to complete the loan package.
3. Preparation of SBA forms 1244 and accompanying documentation for inclusion in the H-GALDC Loan Committee loan package.
4. Completion of the SBA loan package, including final preparation, compilation of all necessary borrower and corporate documents, and collection of borrower signatures on the IRS tax transcript requests. Statesman will provide one original copy of the completed package to the H-GALDC along with a diskette containing electronic copies of the forms required for SBA authorization of the debenture guarantee.

These services may be performed upon authorization of La Tisha Venters, the H-GALDC SBA Program Manager. Payment will be made upon completion and submittal of the loan package to SBA and receipt by H-GALDC of the package in paper and electronic format, and an invoice from Statesman.

B. Eligibility Determination, Credit Analysis, and other Consulting Services

The Houston-Galveston Area Local Development Corporation may request the following consulting services from Statesman Business Advisors: determination of project and borrower eligibility; credit analysis; preparation of SBA 327 notification requests; and consultation on other matters pertaining to the development and servicing of SBA 504 loans. These services will be performed at the request of H-GALDC staff at a compensation rate of \$100/hour not to exceed 75% of the processing and servicing fee plus reasonable and necessary expenses. The staff who will be billing at this rate are listed in Attachment A, along with a summary of their qualifications. Payment will be based on invoices documenting services rendered, hours of consulting assistance, and necessary and reasonable out-of-pocket expenses.



Scott Actkinson
January 1, 2017
Page 2 of 4

C. SBA 504 Loan Development

Statesman is also authorized to identify qualified loan candidates and prepare applications for SBA 504 loans. Statesman will be paid for these services at \$200 per hour for an amount not to exceed 1.0% of the SBA 504 portion of the loan. This fee cannot exceed 75% of the processing and servicing fee and will be payable to Statesman, contingent upon: approval of the loan application by the H-GALDC Loan Committee; authorization of the loan by the SBA and, the loan's closing.

Statesman will be responsible for providing the following services:

1. Pre-qualifying the applicant, and preparing all application materials for review by the H-GALDC Loan Committee. These materials will be provided to H-GALDC so that a Loan Committee Meeting can be scheduled (actual meeting or phone conference.) H-GALDC will review the materials for format and completeness and Statesman will be responsible for making any necessary changes. Statesman staff will also attend the Loan Committee meeting.
2. Upon approval by the Loan Committee, Statesman will be responsible for conducting any follow-up work required for SBA approval of the loan.
3. Statesman will be responsible for preparing the loan package and submitting it to the SBA, as outlined in Section A of this agreement.

D. Affirmations for SBA Qualifications

This contract has been drafted by the Houston-Galveston Area Local Development Corporation H-GALDC, and mutually agreed upon to meet the requirements of CFR 120.824, 120.825, and 120.826, and to that reference further shall be stated the following:

1. This contract is between the H-GALDC and Statesman Business Advisors; the only relationship between these two entities is contractual and the H-GALDC is not a shell for another entity as a result of this contract.
2. This contract in no way diminishes the responsibility of the Board of Directors for the operations of the H-GALDC.
3. Furthermore, the H-GALDC's Board of Directors specifically acknowledges and retains the ultimate responsibility for all loan approvals and loan servicing actions, and that such responsibility must be carried out independently of any control by the Contractor.
4. Both the H-GALDC and Statesman Business Advisors acknowledge that no staff members or associates of Statesman Business Advisors are either voting or non-voting members of the H-GALDC Board of Directors.
5. Both H-GALDC and Statesman Business Advisors agree that:
 - a. This contract is only for services performed
 - b. Description of the services that Statesman will perform has been provided in the body of the contract
 - c. Payment is for services actually rendered and for hours actually worked.
 - d. All compensation paid to Statesman will be paid by the H-GALDC; Statesman will not charge borrower(s) for the same services.
 - e. The H-GALDC has a history of prior contracts with professional service providers and finds the fees charged by Statesman for these services to be commercially reasonable for this local market.
 - f. The H-GALDC will pay for this contract from reserves as evidenced in its budget and financial statements; this contract does not, in any way, tie to any specific loan client project.

Scott Actkinson
January 1, 2017
Page 3 of 4

- g. The contractor is prohibited from requiring a 503/504 applicant or borrower to purchase other services from the contractor as a condition of the contractor's performing CDC staff or management functions.

It is understood and agreed that Statesman Business Advisors are independent contractors to H-GALDC for the purposes of developing prospective 504 loan candidates and applications. Statesman agrees that all costs relative to marketing packaging and processing loan applications are the sole responsibility of Statesman. H-GALDC assumes no responsibility/liability for any actions of Statesman.

This agreement for the period January 1, 2017 through December 31, 2018, and may be extended upon agreement of both parties. H-GALDC may terminate this agreement for convenience at any time with ten (10) days' notice. The agreement may also otherwise be amended or terminated upon the concurrence of both parties.

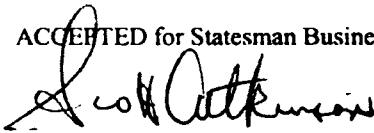
If you accept this agreement, please so indicate by signing in the space provided below.

Sincerely,



Jack Steele

ACCEPTED for Statesman Business Advisors, LLC



Scott Actkinson

2/6/17

Date

ATTACHMENT A
Statesman Business Advisors, LLC
Summary of Key Personnel and Qualifications

Scott Actkinson

Principal

713-595-1341

Scott Actkinson is a co-founder and a Managing Director of Statesman's Lender Services Group where he manages the firm's field examination and government guaranteed lending services (Statesman is not a CPA firm). Scott is widely regarded as one of the most knowledgeable authorities on government guaranteed loan structuring and packaging in the country. Prior to founding Statesman, Scott operated an independent financial advisory firm working with small businesses. His previous business experience includes serving as a Vice President and Chief Financial Officer for a registered government securities broker-dealer and an environmental waste company. Scott began his career in the audit practice of a Big 4 accounting firm.

Scott earned his BBA in Accounting and an MBA in Finance from the University of Houston, and is a licensed CPA. He is registered with FINRA as a General Securities Principal / Investment Banker (Series 7, 24, 28, 63, and 79). Scott's professional affiliations include the American Institute of Certified Public Accountants, the Texas Society of CPAs and the Houston Society of CPAs.

HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION
CORPORATE MEMBERSHIP MEETING
MEETING MINUTES
December 6, 2018

The December 6, 2018, H-GALDC Corporate Membership Meeting was held at Café Piquet, 5757 Bissonnet, Bellaire, Texas. The meeting was called to order at 11:10 a.m.

LDC Board and Members in attendance were: James Bridges, Richard Brown, Carolyn Gibson, John Isom, Missy Malechek, Salim Nathani, Jackie Pottinger-Bryan, Charles Rushing, Dwight Sullivan.

Proxy by email: Brandi Downey, DC Dunham, Gary Henderson, Mike Hoskins, Larry Smith.

Absent: Sarah Cerrone, Brad Burttschell, Elfis Cottingham, Colleen McGrath.

H-GAC and H-GALDC staff in attendance: Carrington Barfield, Ronnie Barnes, Jacqueline Carter, Omar Fortune, Nancy Haussler, Lourdes McIntyre, Arathi Nayak, Timothy Oyewale, Santosh Puttappa, Judy Przyborski.

Guests in attendance: Mike Cruz (Statesman), Cade Cyr (Statesman), Anthony Hernandez (Statesman), Tasha Harvey (Advantage Capital), Sonia Maldonado (SBA), Marlon Mitchell (Houston Business Development Inc.), Dorian Cockrell (United Way), Samad Hinton (Lone Star College), Sharron Powell (Gulf Coast Workforce Board), Kim Petersen (Gulf Coast Workforce Board).

Welcome: President Malechek welcomed everyone. Self-introductions were made.

Remarks: Ronnie Barnes welcomed everyone. Since we last met, H-GAC has reorganized. The LDC is now under Public Services. H-GAC hired Omar Fortune, the new LDC manager. The LDC also launched the new H-GALDC website (hgaldc.com).

As of today, there have been fifty-five (55) SBA504 loans in the State of Texas, with eighteen (18) of those in the Houston area. We are prepared to get to the counties outside the Houston area. We look forward to working with you all. There are a number of workforce people here today. We are looking to build capacity with our workforce group. We are looking into partnerships and opportunities to work with financial institutions. Mr. Barnes stated Chuck Wemple could not be here today, but sends his regards.

Staff Report: Omar Fortune, new LDC manager, welcomed everyone. He noted that there is a diverse group here today. Mr. Fortune shared a little of his background. He stated he was born and raised in New York. His first job was with JPMorgan Chase, in Houston. Because he wanted to give back to the people, he worked with workforce development for 15 years before moving to LDC, and he is excited to be here. He shared high-level details regarding the LDC's history and

H-GALDC Corporate Membership Meeting

December 6, 2018

Page 2

challenges and provided an overview of solutions that will be implemented to mitigate those challenges. He thanked everyone for coming today.

Approval of Minutes: The minutes of the July 12, 2018 Corporate Board meeting were approved as distributed. DC Dunham abstained.

Financial Report: Nancy Haussler, H-GAC Chief Financial Officer, presented the LDC financials ending November 30, 2018. Total assets are almost \$3 million, with \$2.7 million unreserved. Total revenues are \$449,000, with total expenses of \$412,000. Ms. Haussler is happy to report the LDC starting to create revenue and is operating in the black.

The November 30, 2018 LDC financials were accepted as distributed. Moved to accept as presented by Carolyn Gibson; seconded by Dwight Sullivan.

Statesman Business Advisors: Statesman Business Advisors is a key partner and has performed packaging, underwriting, and consulting services for the LDC for many years. Their contract expires December 31, 2018. The Amendment to Contract allows up to four (4) additional years. The contract extension was approved for an additional four years. Carolyn Gibson moved to extend the Statesman Business Advisors contract; seconded by Dwight Sullivan.

Statesman is currently working on two (2) loans for H-GALDC – Toddy Blends and Texas United Volleyball.

Other Remarks: President Malechek stated the H-GALDC Corporate Member roster has been distributed. There are a few vacancies. She asked everyone to send suggestions of others who may be interested in joining the H-GALDC.

No other business was noted.

President Malechek thanked everyone for coming.

Adjourn: The meeting adjourned at 11:45 p.m.



Amendment to Agreement

This Amendment is made by H-GALDC and Statesman Business Advisors, parties to the Agreement, and supersedes prior amendments to the Agreement. Any conditions set forth in prior Amendments are voided and replaced by this current Amendment.

The Agreement is amended as follows:

- This Agreement covered the period January 1, 2017 through December 31, 2018. This Agreement may be extended upon concurrence of both parties for up to three (3) additional years and may not extend beyond December 31, 2021.
- This Agreement is in compliance with 13 CFR §§ 120.823, 120.824 and 120.825.
- The Executive Director, officers, management, staff, and board/ loan committee members of the H-GALDC may not engage in any actual or apparent conflict of interest, personal or self-dealing activities with Statesman Business Advisors outside of the scope, terms and conditions of this Agreement.
- Additional compensation from H-GALDC fee income such as multipliers or bonuses is not permitted.
- Confidentiality

All notes, correspondence, entity documentation, financial information, credit Memoranda, loan authorizations, drafts, photographs, papers, documents and records as defined in their broadest sense (collectively "Records") which H-GALDC allows Statesman Business Advisors to review and/or otherwise inspect or utilize in connection with this Agreement shall be considered confidential.

Statesman Business Advisors agrees, represents, and warrants that it will only use the Records in performing the functions of and duties as set forth herein and/or otherwise in relation to his/her association with H-GALDC. Statesman Business Advisors shall not appropriate or otherwise use any of the Records and/or any information contained in any of the Records provided by H-GALDC for any purpose other than as set forth herein. This prohibition applies to, without limitation, appropriating, or disclosing, names of H-GALDC customers, trade secrets, vendor names, financial information, and personal information.

H-GALDC agrees not to disclose to any third party (other than those parties specifically related to assignments to be performed under this Agreement) the name, address, or telephone number of Statesman Business Advisors without Statesman Business Advisors' prior approval. H-GALDC agrees not to disclose to any party other than SBA, the party the terms of compensation paid to Statesman Business Advisors pursuant to this Agreement."

Except as set forth in this Amendment, the Agreement is otherwise unaffected and shall continue in full force and effect in accordance with its terms. If there is conflict between this Amendment and the Agreement or any earlier Amendment, the terms of this Amendment will prevail.

By: 
Charles Wemple, H-GALDC

Date: 06/18/2019

By: 
Scott Actkinson, Statesman Business Advisors

Date: 6/18/19

Houston-Galveston Area Local Development Corporation
LDC Board
Via Email
June 10, 2019

Present: Richard Brown, Brandi Downey, DC Dunham, Carolyn Gibson, John Isom, Salim Nathani, Jackie Bryan, Bridget Ross, Charles Rushing, Dwight Sullivan.

H-GAC staff: Omar Fortune, Judy Przyborski.

The Amendment to Agreement for Statesman Business Advisors was distributed via email.

Statesman Business Advisors is a key partner and has performed packaging, underwriting, and consulting services for the LDC for many years. The Amendment to Contract which allows up to four (4) additional years, was approved at the December 6, 2018 Corporate Membership meeting. However, *contract terms between CDCs greater than five (5) years, including optional renewal years, are not permitted by SBA and must be limited in time (no more than five years, including renewals).*

The Amendment to Agreement is made by H-GALDC and Statesman Business Advisors, and supersedes prior amendments to the Agreement. Any conditions set forth in prior Amendments are voided and replaced by current Amendment. The Agreement is amended to include up to three (3) additional years and may not extend beyond December 31, 2021. Also included in the Amendment is the confidentiality statement. This Agreement is in compliance with 13 CFR §§ 120.823, 120.824 and 120.825.

The Statesman Business Advisors Amendment to Agreement was approved as distributed via email.

Fortune, Omar

From: Przyborski, Judy
Sent: Tuesday, June 18, 2019 6:25 PM
To: Boyd Jr., Warren E.; Maldonado, Sonia
Cc: Fortune, Omar
Subject: Amendment to Agreement - Statesman Business Advisors
Attachments: 20190618173107347.pdf; 06-10- 2019 LDC Board.pdf

Please see attached signed Amendment to Agreement for the Statesman Business Advisors agreement. Also attached is the minutes for approval.

Judy Przyborski
H-GALDC
3555 Timmons Lane, Suite 120
Houston, TX 77027
direct: (713) 993-4592

----- Original message -----

From: "Boyd Jr., Warren E." <Warren.Boyd@sba.gov>
Date: 6/7/19 9:15 AM (GMT-06:00)
To: "Maldonado, Sonia" <sonia.maldonado@sba.gov>, "Fortune, Omar" <omar.fortune@h-gac.com>
Subject: RE: Professional Service Contract

Good morning

I am OK with the amendment through 2021. However, please include the attached Confidentiality Statement to the amendment and get a signed amendment back to me. Please be advised that term of contract including all options cannot exceed five (5) years.

If you have any questions, please contact me.

Warren E. Boyd, Jr.
Financial Analyst
504 Loan Program Branch
Office of Financial Assistance
409 3rd St., SW
Washington, DC 20416
202-205-7534
Warren.boyd@sba.gov

Subsection 2

Contract with Houston-Galveston Area Council



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

AUG - 2 2017

La Tisha Venters
SBA Program Manager
Houston - Galveston Area Local Development Corporation
3555 Timmons Lane
Houston, TX 77027

Dear Ms. Venters:

SBA has approved the contract between the Houston - Galveston Area Local Development Corporation and the Houston - Galveston Area Council.

We are also approving the request to waive the requirement of the manager being employed directly as permitted in 13 CFR§120.824 (a) (1) as the manager is being provided Houston - Galveston Area Council which is another non-profit entity that has the economic development of the CDC's Area of Operations as one of its principal activities.

We thank you for your support of small business.

If you should have any questions, please contact Warren E. Boyd, Jr., Financial Analyst, 504 Program Branch at 202-205-7534 or warren.boyd@sba.gov

Sincerely,

Dianna L. Seaborn
Director
Office of Financial Assistance

cc: Timothy D. Jeffcoat, District Director, Houston District Office
Hien D. Nguyen, Center Director, Sacramento Loan Processing Center
Joel A. Stiner, Center Director, Fresno Commercial Loan Serving Center
Linda S. Rusche, Director, Office of Credit Risk Management



AGREEMENT BETWEEN
THE HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION AND
HOUSTON-GALVESTON AREA COUNCIL

WHEREAS, the Houston-Galveston Area Local Development Corporation (Corporation) was created to further the economic development and social welfare of the thirteen county Houston-Galveston region by assisting small business; and

WHEREAS, the Corporation is a Certified Development Company authorized by the U. S. Small Business Administration (SBA) to approve and service loans through SBA's 504 loan program; and

WHEREAS, the Houston-Galveston Area Council (H-GAC) is a regional planning commission created pursuant Chapter 391 of the Local Government Code to plan for the region's future development and encourage intergovernmental cooperation; and

WHEREAS, the Corporation was created by the Houston-Galveston Area Council (H-GAC) Board of Directors and by virtue of the Corporation's bylaws H-GAC's Executive Director serves as the Corporation's Executive Director and H-GAC is responsible for accounting for all corporate funds; and

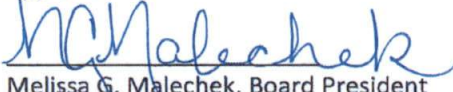
WHEREAS, management of the Corporation's affairs are vested in its Board of Directors; and

WHEREAS, this Agreement is intended to clarify the roles and responsibilities of the Corporation and H-GAC (parties).

1. Management of the Corporation's affairs is vested in its Board of Directors. The Corporation Board of Directors has sole responsibility for reviewing and approving SBA 504 loans, overseeing the loan portfolio and adopting policies and procedures for conducting its business. No associate of H-GAC or any contractor may be a voting or non-voting member of the Corporation's Board of Directors.
2. The Corporation desires that the Houston-Galveston Area Council provide adequate staff for marketing, loan review, loan packaging, loan closing, loan servicing and other duties necessary to maintain an effective SBA 504 Corporation and comply with SBA regulations. This Agreement between H-GAC and the Corporation is for services actually performed and payment is for services actually rendered.
3. H-GAC will employ a full-time manager responsible for managing the daily operations of the Corporation. The Manager, in consultation with the Corporation President, will develop meeting agenda and assure that all necessary Corporate actions are taken by the Board of Directors. The Manager will be responsible for ensuring the SBA requirements for maintaining certification are fulfilled and will advise the Board about any SBA compliance matters and place recommendations, as needed, before the Corporation Board for approval.
4. The Corporation Manager and other staff supporting the Corporation are H-GAC employees subject to H-GAC personnel policies and receive salaries and benefits in accordance with H-GAC's salary and benefit plans. Staff travel reimbursement will be in accordance with H-GAC travel policies.

5. H-GAC will provide the Corporation office space and meeting facilities.
6. H-GAC will account for Corporation funds, prepare any required financial reports and arrange for audit of Corporation funds as part of the H-GAC audit. H-GAC will provide regular financial reports to the Corporation Board of Directors.
7. Upon request by the Corporation, H-GAC may engage contractors on behalf of the Corporation. Contracts entered into by H-GAC on behalf of the Corporation will be procured in accordance with H-GAC's procurement policy and any applicable SBA rules.
8. The Corporation Board of Directors may enter into contracts directly if it so chooses, using policies and procedures that it develops. The Corporation Manager will advise the Corporation Board of Directors of any applicable SBA requirements that must be met. The Corporation will advise H-GAC of any contracts it enters into so that appropriate accounting and reporting occurs.
9. The Corporation will reimburse H-GAC for direct staffing costs, as well as other indirect and direct cost allocations, at cost. A roster of staff charging to the Corporation, their current (January 2017) hourly compensation, and the approximate percentage of time they charge, is shown in Attachment A to this Agreement. For staff who work less than full-time on H-GALDC operations, a description of the services they provide is included. Attachment A also provides a description of the indirect and allocated direct costs which are charged to the H-GALDC.
10. The source of funds for this reimbursement will come from Corporation revenues from loan origination and servicing. Contract payments for professional services should not exceed 75% of the CDC's 504 processing and servicing income.
11. The Corporation's Board of Directors specifically acknowledges and retains the ultimate responsibility for all loan approvals and loan servicing actions, 13 CFR§120.823, and that such responsibility must be carried out independently of any control by the Contractor.
12. The Corporation may contract directly with third party entities for loan generation, packaging, legal services, and other professional services.
13. H-GAC may not require a 504 applicant or borrower to purchase other services from H-GAC as a condition of H-GAC performing staff or management services for the Corporation
14. Consistent with other provision of this Agreement, the Corporation may undertake program promotion and marketing activities, unless specific activities are prohibited by SBA guidelines and policies.
15. This Agreement may be terminated by either party upon sixty days written notice.
16. This Agreement will continue for five years from the date of execution unless amended or terminated by the parties.
17. All compensation paid to the contractor will be paid by the CDC and the contractor cannot charge the borrower for the same services.

Approved:



Melissa G. Malechek, Board President
Houston-Galveston Area Local Development Corporation

Approved:



Jack Steele, Executive Director
Houston-Galveston Area Council

Date:

7-10-17

Date:

7-10-17

AGREEMENT BETWEEN
THE HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION AND
HOUSTON-GALVESTON AREA COUNCIL

ATTACHMENT A

Staff Charging to the H-GALDC

Name/Title	Hourly Rate	Time Percentage
LaTisha Venters, SBA Program Manager	\$44.28	100%
Michael Minton, SBA Business Development Officer	\$45.67	100%
SBA Credit Administrator (vacant)	\$39.42	50%
Anita Kendrick, SBA Loan Coordinator	\$29.81	100%
Timothy Oyewale, SBA Loan Specialist	\$21.15	100%
Judy Przyborski, Loan Assistant	\$28.81	100%
Nancy Haussler, Chief Financial Officer	\$82.21	4%
Chuck Wemple, Operations Officer	\$72.12	6%
Jeff Taebel, Director, Community and Environmental Planning	\$79.95	6%
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Shawn Downie, Accounting Coordinator	\$40.11	5%
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Stephanie Beckford, Senior Financial Analyst	\$37.46	4%
Charles Hill, Internal Auditor Manager	\$47.32	3%
Ricky Porter, Auditor II	\$32.40	3%
Andrea Tantillo, Senior Communications Specialist	\$30.79	3%
Amanda Thorin, Public Outreach and Education Planner	\$31.11	5%
Virgie Hall, Administrative Assistant	\$22.04	3%

Description of Services Provided Under Management Agreement

The SBA Manager, SBA Business Developer, SBA Credit Administrator, SBA Servicing Agent and Loan Assistant all work 100% on H-GALDC operations. The SBA Credit Administrator will work approximately 50% of the time on H-GADC Operations and 50% on other loan programs. A description of the services provided by the other positions which charge portions of their time to the H-GALDC is listed below.

Chief Operating Officer and Director of Community and Environmental Planning: provide high level management oversight, coordinate with the Houston-Galveston Area Council (H-GAC) Board of Directors and other H-GAC programs.

Chief Financial Officer, Assistant Director of Finance and Accounting, Accounting Coordinator, General Accountant, and Senior Financial Analyst: Responsible for overall financial oversight, as well as all H-GALDC accounting, preparation of financial statements, and budgets.

Internal Auditor Manager, Auditor II: responsible for providing periodic internal audits of the H-GALDC.

Public Outreach and Education Planner: responsible for coordinating with H-GAC economic development programs, assist in marketing SBA 504 loans, and and administer the H-GALDC's Community Investment Programs.

Senior Communications Specialist: responsible for generating content, editing and layout of publications, brochure and web site.

Administrative Assistant: responsible for processing purchase requisitions, check requests, and travel reimbursements.

Description of Indirect and Direct Cost Allocations

Indirect Costs: H-GAC incurs costs in general administrative functions that benefit all programs. These costs would include costs for the Executive Director's office, Finance, Receptionist, etc. These costs are pooled each month into the indirect cost pool for allocation to all projects/programs. They are allocated to each project based on the approved fixed rate through H-GAC's Cognate agency Texas Workforce Commission. H-GAC defines direct personnel costs as the costs of salaries plus benefits charged to projects other than indirect.

Direct Cost Allocations:

RENT

Basis: Direct Labor Hours

The monthly cost of leased space along with any adjustments imposed by the landlord for utility costs are allocated to the projects based on each project's labor hours as a percentage of total direct labor hours for the agency. Direct labor hours is defined as labor hours relating to all projects except for indirect cost pool projects.

PRINTING

Basis: Direct Labor Hours

All costs associated with operating the xerox and printing operations of H-GAC are pooled on a monthly basis. Examples of such costs would include lease and maintenance of copiers, paper, copier supplies, salary and benefits of print shop personnel, etc. The pooled costs are allocated to the projects based on each project's labor hours as a percentage of total direct labor hours for the agency.

PERSONNEL

Basis: Direct Labor Hours

This pool of costs includes any cost incurred in a personnel or payroll related function. Examples of this cost are salary and benefits of the benefits and payroll clerks, costs of processing payroll checks (if any), personnel and payroll supplies, etc. The pooled costs are allocated to the projects based on each project's labor hours as a percentage of total direct labor hours for the agency.

PURCHASING

Basis: Direct Labor Hours

H-GAC maintains a centralized purchasing function. This function incurs costs in salaries, benefits, supplies, rent, etc necessary to staff and conduct purchasing transactions for the agency. The pooled costs are allocated to the projects based on each project's labor hours as a percentage of total direct labor hours for the agency.

NETWORK ADMINISTRATION

Basis: Direct Labor Hours

The Council operates networked PC's in a LAN environment using Windows NT and an Oracle database. Standard office software such as Microsoft Office and Outlook reside on the network. T-1 lines provide internet access and the accounting software is also distributed to user departments via the computer network. The costs of maintaining the network including software upgrades, hardware enhancements, support salaries and benefits, etc are pooled into the network administration pool on a monthly basis. These costs are allocated to the projects based on direct labor hours.

COMMUNICATION-LOCAL

Basis: Direct Labor Hours

The costs of maintaining and operating H-GAC's telephone system are pooled monthly. Examples of these costs include the monthly lease of telephone equipment, local telephone access costs, and repair and maintenance of the phone system. These pooled costs are allocated monthly based on project labor hours.

FACILITY

Basis: Direct Labor Hours

H-GAC maintains a centralized office operation function. Supervised by the Facility Manager, this function incurs costs in salaries, benefits, supplies, rent, etc necessary to staff and conduct facility related transactions for the agency. The pooled costs are allocated to the projects based on each project's labor hours as a percentage of total direct labor hours for the agency.

RESOLUTION

SUPPORT OF PROFESSIONAL SERVICES CONTRACT WITH THE HOUSTON-GALVESTON AREA COUNCIL TO PROVIDE STAFFING, ADMINISTRATION AND MANAGEMENT SERVICES.

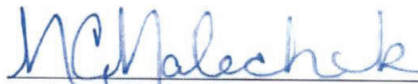
WHEREAS, the Houston-Galveston Area Local Development Corporation desires to enter into a professional services contract with the Houston-Galveston Area Council to provide staffing, administration and management services;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Houston-Galveston Area Local Development Corporation hereby approves a professional services contract with the Houston-Galveston Area Council and that: (1) That the contract is in compliance with 13 CFR 120.824 (attached) pertaining to professional management and staff, contract terms and compensation and conflict of interest, 13 CFR 120.825 related to the LDC's financial ability to maintain operations and SBA Loan Program Requirements; (2) the Board of Directors understands that the contract is subject to pre-approval and yearly review by SBA; and (3) the Board of Directors understands that submission of the contract with the Annual Report is required.

UNANIMOUSLY PASSED AND APPROVED, this 17th day of April, 2017 by the

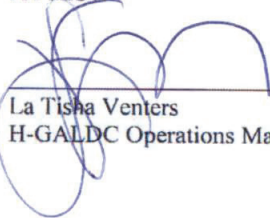
BOARD OF DIRECTORS
HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION

APPROVED:



Melissa G. Malechek
H-GALDC President

ATTEST:



La Tisha Venters
H-GALDC Operations Manager

Houston-Galveston Area Local Development Corporation
LDC Board
Via Email
April 17, 2017

Present: DC Dunham, Carolyn Gibson, Beverly Layne, Missy Malechek, Colleen McGrath, Kim Meloneck, Jackie Pottinger, Dwight Sullivan, Charles Rushing.

H-GAC Staff: Judy Przyborski, La Tisha Venters, Chuck Wemple.

The LDC Board approves contracts for H-GALDC. The following agreement/contracts were emailed to the LDC Board via email.

- Management Agreement between H-GALDC and H-GAC
- SBA Solutions Contract
- Larry Porterfield Contract

The Management Agreement between H-GALDC and H-GAC was last amended April 2016. The revised agreement removes the percentage-based management fee previously assessed and adds the language necessary for regulatory compliance. The term for this agreement is five (5) years.

SBA Solutions are independent contractors to H-GALDC for the purposes of credit analysis, annual risk rating review, and other consulting services. This agreement is for the five (5) year period February 1, 2017 through January 31, 2022.

Larry Porterfield will perform consulting services for H-GALDC. The term of this contract shall continue for two (2) years.

The LDC Board unanimously approved the agreement/contracts listed above.

Section D

Affiliations

AFFILIATIONS

The Houston-Galveston Area Local Development Corporation (H-GALDC) does not have affiliations, other than the agreement with the Houston-Galveston Area Council (H-GAC), which was approved by the SBA on August 2, 2017 and satisfies the provisions under 13 CFR 120.820(b). All H-GALDC staff are leased from H-GAC - the sponsoring organization. For more details, see TAB 2, Section C, Subsection 2 (Contract with Houston-Galveston Area Council) for additional details.



AGREEMENT BETWEEN
THE HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION AND
HOUSTON-GALVESTON AREA COUNCIL

WHEREAS, the Houston-Galveston Area Local Development Corporation (Corporation) was created to further the economic development and social welfare of the thirteen county Houston-Galveston region by assisting small business; and

WHEREAS, the Corporation is a Certified Development Company authorized by the U. S. Small Business Administration (SBA) to approve and service loans through SBA's 504 loan program; and

WHEREAS, the Houston-Galveston Area Council (H-GAC) is a regional planning commission created pursuant Chapter 391 of the Local Government Code to plan for the region's future development and encourage intergovernmental cooperation; and

WHEREAS, the Corporation was created by the Houston-Galveston Area Council (H-GAC) Board of Directors and by virtue of the Corporation's bylaws H-GAC's Executive Director serves as the Corporation's Executive Director and H-GAC is responsible for accounting for all corporate funds; and

WHEREAS, management of the Corporation's affairs are vested in its Board of Directors; and

WHEREAS, this Agreement is intended to clarify the roles and responsibilities of the Corporation and H-GAC (parties).

1. Management of the Corporation's affairs is vested in its Board of Directors. The Corporation Board of Directors has sole responsibility for reviewing and approving SBA 504 loans, overseeing the loan portfolio and adopting policies and procedures for conducting its business. No associate of H-GAC or any contractor may be a voting or non-voting member of the Corporation's Board of Directors.
2. The Corporation desires that the Houston-Galveston Area Council provide adequate staff for marketing, loan review, loan packaging, loan closing, loan servicing and other duties necessary to maintain an effective SBA 504 Corporation and comply with SBA regulations. This Agreement between H-GAC and the Corporation is for services actually performed and payment is for services actually rendered.
3. H-GAC will employ a full-time manager responsible for managing the daily operations of the Corporation. The Manager, in consultation with the Corporation President, will develop meeting agenda and assure that all necessary Corporate actions are taken by the Board of Directors. The Manager will be responsible for ensuring the SBA requirements for maintaining certification are fulfilled and will advise the Board about any SBA compliance matters and place recommendations, as needed, before the Corporation Board for approval.
4. The Corporation Manager and other staff supporting the Corporation are H-GAC employees subject to H-GAC personnel policies and receive salaries and benefits in accordance with H-GAC's salary and benefit plans. Staff travel reimbursement will be in accordance with H-GAC travel policies.

5. H-GAC will provide the Corporation office space and meeting facilities.
6. H-GAC will account for Corporation funds, prepare any required financial reports and arrange for audit of Corporation funds as part of the H-GAC audit. H-GAC will provide regular financial reports to the Corporation Board of Directors.
7. Upon request by the Corporation, H-GAC may engage contractors on behalf of the Corporation. Contracts entered into by H-GAC on behalf of the Corporation will be procured in accordance with H-GAC's procurement policy and any applicable SBA rules.
8. The Corporation Board of Directors may enter into contracts directly if it so chooses, using policies and procedures that it develops. The Corporation Manager will advise the Corporation Board of Directors of any applicable SBA requirements that must be met. The Corporation will advise H-GAC of any contracts it enters into so that appropriate accounting and reporting occurs.
9. The Corporation will reimburse H-GAC for direct staffing costs, as well as other indirect and direct cost allocations, at cost. A roster of staff charging to the Corporation, their current (January 2017) hourly compensation, and the approximate percentage of time they charge, is shown in Attachment A to this Agreement. For staff who work less than full-time on H-GALDC operations, a description of the services they provide is included. Attachment A also provides a description of the indirect and allocated direct costs which are charged to the H-GALDC.
10. The source of funds for this reimbursement will come from Corporation revenues from loan origination and servicing. Contract payments for professional services should not exceed 75% of the CDC's 504 processing and servicing income.
11. The Corporation's Board of Directors specifically acknowledges and retains the ultimate responsibility for all loan approvals and loan servicing actions, 13 CFR§120.823, and that such responsibility must be carried out independently of any control by the Contractor.
12. The Corporation may contract directly with third party entities for loan generation, packaging, legal services, and other professional services.
13. H-GAC may not require a 504 applicant or borrower to purchase other services from H-GAC as a condition of H-GAC performing staff or management services for the Corporation
14. Consistent with other provision of this Agreement, the Corporation may undertake program promotion and marketing activities, unless specific activities are prohibited by SBA guidelines and policies.
15. This Agreement may be terminated by either party upon sixty days written notice.
16. This Agreement will continue for five years from the date of execution unless amended or terminated by the parties.
17. All compensation paid to the contractor will be paid by the CDC and the contractor cannot charge the borrower for the same services.

Approved:



Melissa G. Malechek, Board President
Houston-Galveston Area Local Development Corporation

Approved:



Jack Steele, Executive Director
Houston-Galveston Area Council

Date:

7-10-17

Date:

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U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

AUG - 2 2017

La Tisha Venters
SBA Program Manager
Houston - Galveston Area Local Development Corporation
3555 Timmons Lane
Houston, TX 77027

Dear Ms. Venters:

SBA has approved the contract between the Houston - Galveston Area Local Development Corporation and the Houston - Galveston Area Council.

We are also approving the request to waive the requirement of the manager being employed directly as permitted in 13 CFR§120.824 (a) (1) as the manager is being provided Houston - Galveston Area Council which is another non-profit entity that has the economic development of the CDC's Area of Operations as one of its principal activities.

We thank you for your support of small business.

If you should have any questions, please contact Warren E. Boyd, Jr., Financial Analyst, 504 Program Branch at 202-205-7534 or warren.boyd@sba.gov

Sincerely,

Dianna L. Seaborn
Director
Office of Financial Assistance

cc: Timothy D. Jeffcoat, District Director, Houston District Office
Hien D. Nguyen, Center Director, Sacramento Loan Processing Center
Joel A. Stiner, Center Director, Fresno Commercial Loan Serving Center
Linda S. Rusche, Director, Office of Credit Risk Management

Section E

Legal



LEGAL STATEMENT

No changes have been made to the Articles of Incorporation or to the Bylaws during the Houston-Galveston Area Local Development Corporation's (H-GALDC) fiscal year.

The H-GALDC's membership, Board of Directors and Loan Committee are all in compliance with the Small Business Administration's (SBA) regulations governing CDCs.

The H-GALDC has been involved in one lawsuit as a defendant. The SBA was properly notified and the legal proceeding was closed by a court absolving the CDC of any claim from the plaintiff; however, the plaintiff has appealed the court's decision.

The H-GALDC is occasionally served notice of property tax lawsuits. These suits are originated by the respective SBA 504 borrower's taxing authorities for unpaid taxes. Lienholders are customarily served since they have an interest in the real property by virtue of their liens. It is also an effective means of providing leverage against the borrower to bring their accounts current. Such suits, however, do not imply the lienholder's obligation to pay and the "innocent lienholder" doctrine is clearly spelled out by statute. In these instances, the H-GALDC is obligated to notify the SBA in a timely manner; however, we are not aware of any property tax lawsuits during 2018.

A handwritten signature in black ink, appearing to be "Charles Wemple", is written over a horizontal line.

Charles Wemple
Executive Director

A handwritten date "06/20/2019" is written in black ink over a horizontal line.

Date

A handwritten signature in black ink, appearing to be "Jackie Bryan", is written over a horizontal line.

Jackie Bryan
Board Secretary

A handwritten date "6/21/2019" is written in black ink over a horizontal line.

Date



Section F

Independent Loan Review Package

Subsection 1

Independent Loan Review Engagement Letter

2018 Independent Loan Review Engagement Letter

From: Mary Kropp <mekropp504@aol.com>
Sent: Monday, September 10, 2018 9:01 AM
To: Barnes, Ronnie <ronnie.barnes@h-gac.com>
Cc: Wemple, Charles <charles.wemple@h-gac.com>; Przyborski, Judy <judy.przyborski@h-gac.com>
Subject: Punch List of items due for your 2018 Independent Loan Review punch for the SBA 504 Loan Program
Importance: High

Hi Ronnie:

Can you believe that it is already almost time for your ILR? Since this will be the first time you will be managing the SBA Independent Loan Review process at H-GAC, let me explain this email. Every year at this time (about two weeks prior to your actual review start date), I send the punch list from your contract out to you as a reminder, so here it is, noting that you are welcome to send the items earlier in order to receive your file sampling list earlier as well.

That being said, I need the first six punch list items, plus any SMART review reports with CDC responses, and a copy of your Internal Control Policy (see the items in the list below in red) in order to complete your file sampling by no later than the morning of Monday, September 17th. The rest of the items, I should get on or before the start date of September 24th. I would use the 8/31/2018 reports, for a 9/1/2018 as of date.

So, the standard punch list email is as follows (apologies for the form letter, but this way I won't miss anything...)...

This email is a reminder that your off site Independent Loan Review is scheduled to begin on September 24, 2018. Prior to that date, the following punch list of items must be received **no later than September 17, 2018**. Also of note is the fact that a couple of

items have changed and I no longer need them from the time we set up your contract (and have crossed them off from the list below).

In addition, please note I will need to continue my login as a read only (Auditor classification) Ventures user with the CDC - I already have this and it is still active, so no action on Ventures is required. If you use BMI for application, closing and servicing file storage, and you access your BMI files through Ventures and BMI Web, I would also need the additional log in for BMI. If not, I will need access to applicable application, closing, servicing and liquidation files on your system and I think in year's prior we used a VPN access to SharePoint for that. In any event, I would like to be able to test my digital file access again prior to your review start date.

The punch list items are noted as follows (slightly different from the contract as a couple of items have been eliminated):

1. CSA (Wells Fargo Corporate Trust Services) Status of Portfolio report as of "review date" both in **PDF and Excel.**
2. CSA Status of Portfolio Non-Current Report as of "review date."
3. CDC Active, funded files Listing report from its internal loan management software, **in Excel, totaled in number and dollars.**
4. Internal report listing loans in "approved, not yet funded" status (including but not limited to approval date, debenture amount, SBA loan number, SBA Office from Loan Auth, etc.), **in Excel totaled in number and dollars.**
5. Internal report listing (1) Loans still active in Liquidation status, as well as a second report listing (2) All historical Liquidation files (including but not limited to approval date, funding date, Liquidation purchase date, debenture amount, SBA loan number, SBA Office from Loan Auth, etc.), **in Excel, totaled in number and dollars.**
6. Internal report listing all active loans funded in the 12 months preceding the "review date" of (date to be determined), (including but not limited to approval type, approval date, funding date, current balance, original debenture amount, SBA loan number, SBA Office from Loan Auth, etc.), **in Excel, totaled in number and dollars.**
7. Internal report listing all active loans and their respective risk ratings (including rating and date rated, plus approval type, approval date, dollar amount, SBA loan number, SBA Office from Loan Auth, etc.), **in Excel, subtotaled in both dollars and number of loans.**

8. CDC Credit Policy Manual (if any), plus PCLP policies if/where different and if applicable (Or updates since last review by PSUI)

9. CDC Loan Credit Scoring, Loan Grading and Loan Grading Exceptions Policy (Or updates since last review by PSUI)

10. CDC Concentration of Credit (by Industry) report as of “review date” of (date to be determined), both in dollar amount and in number of loans as follows (with each report totaled) **in Excel:**

- a. Concentration by 6-digit NAICS code both in dollar amount and in number of loans
- b. Concentration by 3-digit master NAICS codes both in dollar amount and in number of loans
- c. Top 5 to 10 franchises lent to both in dollar amount and in number of loans.

11. CDC Watch List and/or Critical Asset List (if any)

12. Copies of most recent CDC 60-day and over Quarterly reports submitted to SBA, if any

13. Copies of most recent quarterly Liquidation reports submitted to SBA, if any

14. Other Policies, including but not limited to: CDC Servicing Policy & Procedures (if any), **CDC Internal Control Policy**, and Board Manual (Or updates on any of these since last review by PSUI, if applicable)

15. Access to digital loan management systems and files, including but not limited to complete Application, Closing and Servicing files (or equivalent). [IMPORTANT: Due to off site service, CDC must be ready to provide organized files as noted above in a mutually agreed upon digital format and electronic access to loan management systems via internet connection; bulk PDF's without appropriate indexing or bookmarks may not be acceptable]

16. Copies of most recent Independent Loan Review reports, if any, where not completed by PSUI. If last ILR was completed by PSUI, then provide CDC response to ILR findings and recommendations with evidence of Board approval of same.

~~17. If SBA SMART review has been completed in the preceding 12 months, provide the following dates:~~

- ~~a. _____ Actual dates Review completed and type of review~~
- ~~b. _____ “As of” date for the Review~~
- ~~c. _____ Date of SBA Review report~~
- ~~d. _____ Date of CDC response~~

e. ~~_____ Date of SBA acceptance of response.~~

18. a. Copies of any Quality Control reviews by the Sacramento, ASM reviews and quarterly Priority Closing reviews, if any.

b. If applicable, copies PCLP reserve reports, backup documentation and evidence of SBA acceptance of same.

19. Most recent CDC Annual Report, and copy of financial statements. Included here would be copies of signed Board Commitment Statements showing compliance with CFR 120.823.

20. Interim Financials as of the Review "As of" date

21. CDC Bylaws and Articles of Incorporation, plus copies of Board Minutes upon request. Board Committee lists and Board Policy (if any).

22. Copy of CDC Certificate of Good Standing and copies of most recent 3 years of 990s.

23. CDC Organization Chart (plus work flow chart, if available).

24. CDC Strategic Plan (if any), plus CDC business plan (if any).

25. Recap of CDC loan programs other than SBA504 and support provided by 504 operations to those programs.

26. SBA now allows Independent Loan Review professionals to see the following without restrictions outside of those imposed under this contract for confidentiality:

a. **(1) SBA Lender Portal Report closest to "review date" of (date to be determined), including (2) Excel spreadsheet of individual ratings**

b. ~~_____ SBA CDC SMART Portfolio Assessment Scorecard (not required if SMART review in last 24 months)~~

c. **Copies of any recent SBA OCRM SMART loan reviews and management letters / responses regarding same.**

Thank you for your use of Power Steering for this important service and I look forward to working with you for the first time this year.

All the best,

Mary

Mary E. Kropp-Benton, President

Power Steering Unlimited, Inc.

- Phone: 210.478.1055

- Email: mekropp504@aol.com or mary@powersteering504.com

- Skype: Mary E. Kropp

- LinkedIn: <http://www.linkedin.com/pub/mary-kropp/0/650/398>

- Facebook: www.facebook.com/powersteeringunlimited

- Website: <http://www.powersteeringunlimited.com>

- Mailing Address **5/16 - 9/30**: P.O. Box 576, Suttons Bay, MI 49682

- Mailing Address **10/1 - 5/15**: 145 SW 54th Terrace, Cape Coral, FL 33914

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Subsection 2

Independent Loan Review Report

Independent Loan Review of 504 Loan Portfolio

Prepared for: Houston-Galveston Area Local Development Corporation

Prepared as of: August 31, 2018

Submitted: October 31, 2018

SBA required loan review interval met.....☒
[2018 review completed within 12 months of 2017 review]

Purpose: Per SBA OCRM, CDC must establish a periodic independent loan review function for its SBA loan portfolio, to ensure management of its SBA loans in accordance with SBA Loan Program Requirements and prudent lending dictates.

Prepared by: Power Steering Unlimited, Inc.



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Houston-Galveston Area Local Development Corporation (H-GALDC)

Independent Loan Review 2018

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Definitions common to SBA and/or Commercial Lending acronyms used in report:

SMART	<i>Solvency and Financial Condition, Management and Board Governance, Asset Quality, Regulatory Compliance and Technical Issues and Mission – acronym for formal SBA CDC review process and category names for review sections</i>
OCRM	<i>the SBA Office of Credit Risk Management</i>
ILR	<i>Independent Loan Review</i>
FFIR	<i>Federal Financial Institution Regulators</i>
PCLP	<i>Premier Certified Lender Program (does not apply to H-GALDC)</i>
CAIVRS	<i>Credit Alert Interactive Verification Reporting System (Where CDC checks for federal financing to a client)</i>
ACORD	<i>Association for Cooperative Operations Research and Development – (Form name which provides evidence of insurance)</i>
CLSC	<i>SBA Commercial Loan Servicing Center</i>
FF&E	<i>Furniture, Fixtures & Equipment (Collateral)</i>
BPP	<i>Business Person Property Collateral)</i>
TPL	<i>Third Party Lender (504 1st Deed of Trust Lender)</i>
NAICS	<i>North American Industrial Classification System – used for analyzing credit concentrations to different industries</i>
CFR	<i>Code of Federal Regulations</i>
SOP	<i>Standard Operating Procedure</i>

Scope of Work and Point of Clarification: The intent of any loan review of this nature is to provide an independent loan review of the client portfolio in order to render an opinion on portfolio quality by reviewing a statistically relevant sampling of loans for sound and consistent credit underwriting principals and prudent lending practices first and foremost. It is not a targeted OCRM pre-SMART audit of files where the intent is to review the files for line item compliance with SBA guidelines as established in the 504 Risk based Lender Review checklist. As such, while compliance issues are discussed in the scope of work, the primary concern of this independent loan review is that the CDC has established and follows its loan policy and procedures, that the file sample reviewed evidences both sound underwriting and prudent lending, and that the CDC maintains the proper level of internal controls in the delivering and servicing of its 504 Loan Program loans.

Report on Houston-Galveston Area Local Development Corporation 2018 Independent Loan Review:

SECTION I. Background

Lender portal data, CDC Management Report items and Loan Review Punch list:

Houston-Galveston Area Local Development Corporation (H-GALDC) is a low-volume CDC, with average portfolio performance based on both historical SBA Lender Portal data and the conclusions to come in this review (Portfolio size as of review date was 153 loans with \$58,154,244 total outstanding. In addition to Independent Loan Reviews, CDC Boards should be aware of the SBA's Lender Portal, which allows lenders to view their own quarterly performance data, including their most current composite risk rating, the **CDC SMART Score**. Lenders can also access data on peer group and portfolio averages. The **CDC SMART Score** is a holistic rating of a CDC's performance and risk to the SBA loan guarantee program. It is the aggregation of the SMART component scores (Solvency and Financial Condition, Management and Board Governance, Asset Quality and Servicing, Regulatory Compliance, and Technical Issues), which each focus on different types of CDC risk. Each metric within SMART is given a score of 1 (lower risk), 3 (moderate risk), or 5 (higher risk) and the summation of the scores within the different SMART components equate to the SMART component score. H-GALDC's most recent SMART Score was 32.

The **LRR/LPR (Lender Purchase Rating of the Lender's SBA Loan Portfolio)** is SBA's assessment of a lender's potential risk to SBA based on the purchase of loans within the lender's portfolio. Ratings are scaled 1 through 5, with 1 representing the lowest risk and 5 representing the highest risk of purchase. NOTE: Also called Lender Risk Rating, the lender Purchase Rating aggregates the Predicted Purchase Rate of loans within the lender's portfolio to assign a single numeric value to the lender. The Lender Risk Rating is a blend of four ratings categories, including the small loans (under \$750M) group, the larger loans (over \$750M) group, the Legacy group, and the Emerging group. H-GALDC's most recent LRR/LPR was 3.

A sixth Peer Group category was added with the latest Lender Portal update. The CDC's Peer Group size

range is based on loan portfolio sizes over \$30.0 Million but less than \$99.9 Million, the second-largest portfolio size Peer Group. The Peer Group striation is detailed as follows:

Six 504 Peer Groups
> \$350.0M
\$100.0M-\$350.0M
\$030.0M-\$099.9M
\$010.0M-\$029.9M
\$005.0M-\$009.9M
\$000.0 - \$004.9M

In a recent SBA Lender Portal update, the SBA has eliminated a category that addressed a CDC's cumulative net cash flow from a complete historical perspective. In prior reviews with CDC's, the SBA had asked CDC's to address how any negative net flow would be eliminated over time. It was an area where most CDCs were seeing slowly decreasing negative Net Cash Flow numbers, which was indicative that CDCs are not adding new liquidations and should continue to decline as new loan production moves to closing and servicing and long term workouts continue to be collected. In fact, most CDCs were looking at moving to a positive cumulative net flow by in less than 24 months. In recognition of those improvements, the SBA has revised this number to only have a five-year look back the report is now concentrating on current quarter results versus cumulative year over year data. ***So in terms of the most recent quarter end Portal report available, the CDC's SBA performance number is experiencing a positive 5-year average Net Cash Flow of nearly \$12.8 million.***

According to the CSA non-current loan report provided there are four (4) loans with a total balance of \$1,017,320 reporting as non-current by the CSA as of August 31, 2018.

At the time of this Review, the CDC provided the following reports to the Loan Reviewer, Power Steering Unlimited, Inc. ("PSUI"):

1. CSA (Wells Fargo Corporate Trust Services) Status of Portfolio report as of "review date" both in PDF and Excel. (provided)
2. CSA Status of Portfolio Non-Current Report as of "review date." (provided – none)
3. CDC Active, funded files Listing report from its internal loan management software, in Excel, totaled in number and dollars. (provided)
4. Internal report listing loans in "approved, not yet funded" status (including but not limited to approval date, debenture amount, SBA loan number, SBA Office from Loan Auth, etc.), in Excel totaled in number and dollars. (provided)
5. Internal report listing of a) loans still active in Liquidation status, as well as b) a second report listing all historical Liquidation files (including but not limited to approval date, funding date, Liquidation purchase date, debenture amount, SBA loan number, SBA Office from Loan Auth, etc.), in Excel, totaled in number and dollars. (provided)

6. Internal report listing all active loans funded in the 12 months preceding the “review date” of (date to be determined), (including but not limited to approval type, approval date, funding date, current balance, original debenture amount, SBA loan number, SBA Office from Loan Auth, etc.), in Excel, totaled in number and dollars. (provided)
7. Internal report listing all active loans and their respective risk ratings (including rating and date rated, plus approval type, approval date, dollar amount, SBA loan number, SBA Office from Loan Auth, etc.), in Excel. (provided)
8. CDC Credit Policy Manual (if any), plus PCLP policies if/where different and if applicable (Or updates since last review by PSUI) (provided)
9. CDC Loan Credit Scoring, Loan Grading and Loan Grading Exceptions Policy (Or updates since last review by PSUI). (provided)
10. CDC Concentration of Credit (by Industry) report as of “review date” of (date to be determined), both in dollar amount and in number of loans as follows (with each report totaled) in Excel:
 - a. Concentration by 6-digit NAICS code both in dollar amount and in number of loans (provided)
 - b. Concentration by 3-digit master NAICS codes both in dollar amount and in number of loans (provided)
 - c. Top 5 to 10 franchises lent to both in dollar amount and in number of loans. (provided)
11. CDC Watch List and/or Critical Asset List (if any) (not yet set up in Ventures system)
12. Copies of most recent CDC 60-day and over Quarterly reports submitted to SBA, if any (None at time of review)
13. Copies of most recent quarterly Liquidation reports submitted to SBA, if any (none at time of review; CDC has two LIQ files and needs to complete this report on each going forward)
14. Other Policies, including but not limited to: CDC Servicing Policy & Procedures (if any), CDC Internal Control Policy, and Board Manual (Or updates on any of these since last review by PSUI, if applicable). (provided)
15. Access to digital loan management systems and files, including but not limited to complete Application, Closing and Servicing files (or equivalent). (provided)
16. Copies of most recent Independent Loan Review reports, if any, where not completed by PSUI. If last ILR was completed by PSUI, then provide CDC response to ILR findings and recommendations with evidence of Board approval of same. (response to ILR provided, as well as Board acknowledgment certifications)
- ~~17. If SBA SMART review has been completed in the preceding 12 months, provide the following dates:~~
 - ~~a. Actual dates Review completed and type of review~~
 - ~~b. “As of” date for the Review~~
 - ~~c. Date of SBA Review report~~
 - ~~d. Date of CDC response~~
 - ~~e. Date of SBA acceptance of response.~~
18. a. Copies of any Quality Control reviews by the Sacramento, ASM reviews and quarterly Priority Closing reviews, if any. (N/A)

- b. If applicable, copies PCLP reserve reports, backup documentation and evidence of SBA acceptance of same. (N/A)
- 19. Most recent CDC Annual Report, and copy of financial statements. Included here would be copies of signed Board Commitment Statements showing compliance with CFR 120.823. (not provided)
- 20. Interim Financials as of the Review "As of" date (provided)
- 21. CDC Bylaws and Articles of Incorporation, plus copies of Board Minutes upon request. Board Committee lists and Board Policy (if any). (provided in 2017)
- 22. Copy of CDC Certificate of Good Standing and copies of most recent 3 years of 990s (or 1120's for for-profits organizations. (CDC Certificate of formation provided, 990's not applicable per CDC write-up provided)
- 23. CDC Organization Chart (plus work flow chart, if available). (provided)
- 24. CDC Strategic Plan (if any), plus CDC business plan (if any). (provided)
- 25. Recap of CDC loan programs other than SBA504 and support provided by 504 operations to those programs. (Provided)
- 26. SBA now allows Independent Loan Review professionals to see the following without restrictions outside of those imposed under this contract for confidentiality:
 - a. SBA Lender Portal Report closest to "review date" of (date to be determined), including Excel spreadsheet of individual ratings (provided)
 - ~~b. SBA CDC SMART Portfolio Assessment Scorecard (not required if SMART review in last 24 months)~~
 - c. Copies of any recent SBA OCRM SMART loan reviews and management letters / responses regarding same. (provided)

In addition, PSUI was granted access to newly re-organized digital file records and the Ventures+ loan management system. The CDC operates as a Regular CDC lender in one state (Texas); the file sampling was completely random, and not directed at any specific loan authority level or state of operation. The CDC lost its ASM status in June 2015, due to excessive screen out rates on its limited file submissions.

At FYE 2017 Annual Report, the CDC was not participating in any other SBA programs. However, the CDC continues to support supports two loan programs outside of the SBA 504 Program:

- Business Loan Fund
- Galveston Recovery Fund

The Business Loan Fund helps to improve the economic vitality of the CDC's 13-county Gulf Coast region by financing new or expanding small businesses when traditional funding is unavailable or otherwise insufficient. The fund provides resources to help with (1) closing costs, (2) working capital and (3) the purchase of assets including buildings, equipment, furniture and inventory. The fund is available to businesses in Austin, Brazoria, Colorado, Chambers, Fort Bend, Galveston, Harris, Liberty, Matagorda, Montgomery, Walker, Waller and Wharton Counties. Loan amounts range from \$100,000 to \$300,000.

Higher loan amounts may be considered under special circumstances. A 10% minimum down payment is required. The Fund offers interest rates starting at 4% and repayment terms up to 10 years.

The CDC also provided loan assistance to businesses impacted by Hurricane Ike in Galveston County through the Galveston Recovery Fund. H-GALDC staff helped businesses complete a loan applications and gather all necessary loan documents; submit the loan packages for review; and provided ongoing loan servicing for funded loans.

An overview of the active loans for these two funds is in the table below.

Loan Name	Loan Type	Amount	Payment	Balance Remaining	Comments	Business Type
IMC, Inc	Business Loan Fund	\$242,104.11	\$115,433.20	\$126,670.91	Current	Manufacturing/Metals Fabrication
City of Liberty	Business Loan Fund	\$492,982.00	\$71,415.83	\$421,566.17	Current	Government Entity
Simski LLC, DBA Hardheads	Business Loan Fund	\$172,800.00	\$58,463.91	\$114,336.09	Current	Restaurant
GlowZone	Business Loan Fund	\$358,995.99	\$0.00	\$358,995.99	In Process	Family Entertainment
Caldwell County Chevrolet	Business Loan Fund	\$96,721.00	\$0.00	\$96,721.00	Current	Car Dealership
Charlie Dibella - Dibella's Italian Restaurant	Galveston Recovery Fund	\$40,000.00	\$20,532.61	\$19,467.39	Potential write-off	Restaurant
David & LeCroy	Galveston Recovery Fund	\$10,000.00	\$7,261.36	\$2,738.64	Potential write-off	Restaurant
Leon Kaplan - Speedy's Printing	Galveston Recovery Fund	\$33,000.00	\$23,472.95	\$9,527.05	Current	Copy and Printing Services
TOTALS		\$1,446,603.10	\$296,579.86	\$1,150,023.24		

CDC Loan Production impact on future of CDC operations:

At the present time, the CDC is still not in compliance with the annual volume requirements and its certification may be in jeopardy per the results noted in the table below.

Houston Galveston Area LDC Loan Production recap

Fiscal Year	CDC#	CDC Name	# of Loans Approved	\$ of approvals	
9/30/11	06-284	Houston Galveston Area LDC	10	\$	7,176,000.00
9/30/12	06-284	Houston Galveston Area LDC	11	\$	9,842,000.00
9/30/13	06-284	Houston Galveston Area LDC	5	\$	4,685,000.00
9/30/14	06-284	Houston Galveston Area LDC	0	\$	-
9/30/15	06-284	Houston Galveston Area LDC	3	\$	2,672,000.00
9/30/16	06-284	Houston Galveston Area LDC	0	\$	-
9/30/17	06-284	Houston Galveston Area LDC	1	\$	757,000.00
8/31/18	06-284	Houston Galveston Area LDC	1	\$	1,418,000.00

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Chapter 3, Certified Development Companies

Section II. Becoming a CDC and Operational Requirements

E. Minimum Level of Activity and Restrictions on Portfolio Concentrations (13 CFR § 120.828):

A CDC must have at least four (4) different loans approved during the last two (2) consecutive fiscal years, and the portfolio must be diversified as to type of business.

NEW SOP IMPACT ON REVIEWS:

On January 1, 2018 a new SOP 50 10 5 J was issued which included sweeping changes to the SBA programs it is intended to oversee. With any new SOP will come variations on interpretation of new rules, identification of those items and updates to address unintended consequences of the same. Based on discussions of the impact of the new SOP with SBA OCRM's lead auditor, they noted the following top 10 review items attributed to the new SOP year to date:

1. SBA Form 1081: We are verifying that the CDC compliant with the SBA Form 1081 on new staff and board members. These should be approved by SBA prior to hiring.
2. Designated Attorneys: The CDC should ensure that its Designated Attorneys obtain approval of any hardship waivers for professional liability insurance coverage requirements from SBA in 2018 and on an annual basis after that.
3. Dram Shop Insurance: The CDC's consistently require insurance coverage within the SBA Loan Authorization
4. SBA Form 159: The CDC's does not always complete SBA Form 159
5. CPA's letter on internal control weaknesses: The CDC does not include in the annual report to SBA the CPA's letter to management on internal control weaknesses
6. Incomplete annual report to SBA: The CDC fails to include in the Annual Report all required items as detailed in the Certified Development Company Annual Report Guide (SBA Form 1253)
7. Semiannual reports to the Board: The CDC fails to provide the Board semi-annual reports on asset quality and industry concentrations. The Board's review of asset quality and industry concentrations must be reflected in the Board meeting minutes. Asset Quality reports also include a discussion of the portfolio distribution of loan risk ratings.
8. Conflict of Interest: CDCs should establish a Conflict of Interest Policy that contains definitions, required disclosures, and situations that may create the appearance of or actual conflict of interest. The policy should ensure that potential conflicts of interest are re-evaluated on an ongoing basis. Board members should sign an acknowledgment of the Conflict of Interest Policy on at least an annual basis to certify that they are not in violation of any corporate policy, while staff members should sign an acknowledgment of the policy when they join the CDC or when there are changes to the document.
9. Executive Compensation: The CDCs should develop a Board-approved Executive Compensation policy to ensure that its Executive Director is reasonably compensated based on business volumes, level of responsibility, experience, and comparison to industry averages. The policy should include details of 1) the requirements to document its compensation determination process, and 2) the requirements to document its annual performance evaluation of the Executive Director and SBA's CDC Best Practices Guidance for Executive Compensation.
10. Independent Loan Review: CDCs should ensure that its Independent Loan Reviews are conducted at least every 12 months so that loans and appraisals are continually assessed for compliance with SBA Loan Program Requirements.

Most of the items noted are not directly involved in the ILR process, though they may be subject to review based on the CDC or loan being reviewed, but #'s 7 and 10 are direct review items and are already being reviewed by PSUI in the review process.

Also, as SBA OCRM and OCRM contractors complete more SMART reviews, they are providing feedback on CDC policies each year, which have likely evolved and may be different from and contain additional requirements over previous reviews. Until the process normalizes over time, and CDC policies likely become more consistent and cohesive as a group, it is likely that the OCRM teams will continue to provide new citations on existing policies and suggest the addition of new policies and policy language where they deem appropriate.

SECTION II. Recap Previous Review Findings and Updates

Section II, Part A. Previous SBA Review Findings and Recommendations:

CDC received an on-site SMART Targeted Review during the week of January 19, 2016, with an "as of" date of 9/30/2015, with a final report provided to the CDC July 8, 2016, and multiple CDC responses from August, 2016 to June 2017 and final acceptance by the SBA in June, 2017; the Review resulted in an assessment of Marginally Acceptable with Corrective Actions Required. No additional SBA reviews have been completed on CDC since that time. The reviewer was contracted to provide an Independent Loan Review and not to assist with the response and as such, will not be providing update comments on, the SBA findings and recommendations.

The Targeted Review is generally narrow in scope. In a Targeted Review, SBA generally reviews one or more SMART components or other areas of concern (including program integrity concerns) identified by SBA as requiring a focused scope of review. For example, SBA may perform a Targeted Review in connection with "Less than Acceptable" factor(s) or other material noncompliance identified during an Analytical Review or a Full Review. SBA may also use a Targeted Review to confirm the implementation of required corrective actions, or in conjunction with increased supervision or enforcement.

A Targeted Review may be conducted either virtually and/or at a CDC's location depending on the CDC's technological capabilities or other review-specific needs. A CDC selected for a Targeted Review may receive an engagement letter that advises the CDC of the review and requests documents and information relevant to the matters being reviewed. For a Targeted Review that includes a 504 loan file review, SBA may use random and/or judgmental sampling to target specific risk characteristics.

The review resulted in fifteen (15) findings and four (4) recommendations follows:

SMART Review Findings:

1. *Finding: Houston-Galveston Area LDC failed to obtain prior written approval from the Director of SBA's Office of Financial Assistance for its management and professional services contracts with Houston-Galveston Area Council and Statesman Business Advisors, LLC (13 CFR §120.824(b)).*

2. *Finding: Houston-Galveston Area LDC's corporate bylaws do not include the requirements around Investment in Other Economic Development and CDC credit approval of all 504 loans prior to submission to SBA (13 CFR § 120.823).*
3. *Finding: Houston-Galveston Area LDC failed to provide its Lead SBA Field Office with timely written notice that Mr. Brent Swanson, Operational Manager for the CDC, ceased his employment with the CDC in April of 2016 (13 CFR §120.823(d), SOP 50 10 5 H).*
4. *Finding: Houston-Galveston Area LDC's loan quality classification standards in its Internal Control Policy are not consistent with standardized classification systems used by the Federal Financial Institution Regulators (13 CFR §120.826(b)).*
5. *Finding: Houston-Galveston Area LDC's Credit Policy Manual is insufficient as it does not include several key SBA Loan Program Requirements (13 CFR §120.823(d)(14) and SOP 50 10 5(H)).*
6. *Finding: Houston-Galveston Area does not appropriately risk rate its loans at origination or during annual loan reassessment (SOP 50 10 5(H), Subpart A, Chapter 3 (II) (B) (1) (a) (iv)).*
7. *Finding: Houston-Galveston Area LDC does not obtain adequate hazard insurance protection as is required in the SBA Loan Authorization and does not consistently perform an analysis regarding other insurance (such as professional liability insurance) that might be appropriate for the borrower (SOP 50 10 5(H), Subpart C, Chapter 5 (I) (D)).*
8. *Finding: Houston-Galveston Area LDC loan closing procedures are not compliant with SBA Program Requirements regarding verification of borrowers' use of proceeds (13 CFR §120.960).*
9. *Finding: Houston-Galveston Area LDC loan underwriting procedures are not compliant with SBA Loan Program Requirements regarding establishing the cost basis for the project (SOP 50 10 5(H), Subpart C, Chapter 2, III, H(4)).*
10. *Finding: Houston-Galveston Area LDC loan closing procedures are not compliant with SBA Loan Program Requirements regarding confirming project completion (13 CFR §120.891).*
11. *Finding: Houston-Galveston Area LDC intensive servicing procedures are not compliant with SBA Loan Program Requirements related to repayment analysis and/or collateral support for deferment and catch-up plans (SOP 50 55, Chapter 12).*
12. *Finding: Houston-Galveston Area LDC does not submit Wrap-Up Reports to SBA in a timely manner (SOP 50 55, Chapter 28 (B)).*
13. *Finding: Houston-Galveston Area LDC failed to provide collateral liquidation valuations (SOP 50 10 5(H), Subpart C, Chapter 5, II, B(5)).*
14. *Finding: Houston-Galveston Area LDC failed to receive at least four SBA 504 Loan Approvals in the last two fiscal years (13 CFR §120.828(a)).*
15. *Houston-Galveston Area LDC has ineffective procedures in place related to documenting and reporting of jobs created and/or retained "as of" the two year funding anniversary of its borrowers' 504 loans (13 CFR 120.829, 13 CFR 120.861, and SOP 50 10 5(H), sub. C, ch. 2, para. III.H).*

SMART Review Recommendations:

1. *Houston-Galveston Area LDC's Five Year Cumulative Net Yield of -3.5% is considered to be of Higher Risk. As such, the CDC should continue to monitor its portfolio performance to ensure that purchases and charge-offs are kept to a manageable level.*
2. *Houston-Galveston Area LDC should re-submit its request to waive the requirement for a directly employed CDC manager to SBA's Houston District Office within 30 days of this Report (13 CFR §120.824(2)).*
3. *Houston-Galveston Area LDC should update its Servicing Policy and Procedures Manual to reflect guidance in SOP 50 10 5(H) and SOP 50 55, replacing its references to SOP 50 10 4 and SOP 50 50 4, respectively.*

4. *Houston-Galveston Area LDC should provide its Board of Directors with 504-specific training and then document the training participation to ensure that the Board has the requisite program knowledge to fulfill their obligation to be responsible for all corporate actions and business (13 CFR §120.823(d)).*

Though the reviewer was not contracted to assist with the CDC response, the response was provided for reviewer records and it appears that the findings and recommendations were thoroughly and thoughtfully addressed; further evidenced by SBA's approval of same completed in 2017.

Section II, Part B. Prior PSUI Independent Loan Review Report Findings (if any):

The CDC received an independent Loan Review by PSUI as of September 1, 2017, with findings, recommendations and updates (if any) noted as follows:

2017 Findings:

2017 ILR Finding #1 – CDC new loan productions is below the SBA statutory minimum in order to maintain licensing; The CDC needs to address the loan production issue with SBA as soon as possible as any other effort may be in vain without SBA's concurrence that the CDC can continue to operate while not having met minimum production requirements.

2018 PSUI Update: Repeat: however, corrective actions have been noted since the last review..

2017 ILR Finding #2 - CDC should obtain a complete copy of the property insurance policy to verify the policy default notice provisions meet Authorization/SOP requirements [repeat – from recommendation]: This finding relates to ACORDs, which typically refer the assignees back to the original policy for cancellation language and do not always contain the necessary endorsements for mortgagee for real property or Lender Loss Payee for personal property. The ACORDs rarely provide the cancellation language on the face of the ACORD document any more. As a result, it is now being recommended that, at least at closing and then intermittently on a go-forward basis, the CDC (or CDC closing counsel at closing) obtain and review a complete copy of the Policy to ensure knowledge of cancellation notice requirements, in addition to the appropriate endorsements pages to ensure proper coverage position in the event of a loss. The OCRM team continues to cite this item as one its top review findings and references the following SOP section as its basis for this finding (SOP 50 10 5 H, Chapter 5, Section I.D., part 4, 1.):

[D. Insurance Requirements](#)

[1. Hazard Insurance 13 CFR §120.160\(c\)](#)

- [a\) SBA requires hazard insurance on all assets pledged as collateral. If the business is located in a state that requires additional coverage such as wind, hail, earthquake or other, on the hazard insurance or in a separate policy, borrower must provide.](#)*

[b\) Real Estate:](#)

- i. Coverage must be in the amount of the full replacement cost.*
 - ii. If full replacement cost insurance is not available, coverage must be for the maximum insurable value.*
 - iii. Insurance coverage must contain a MORTGAGEE CLAUSE (or substantial equivalent) in favor of the CDC/SBA. This clause must provide that any action or failure to act by the mortgagor or owner of the insured property will not invalidate the interest of CDC/SBA. The policy or endorsements must provide for at least 10 days prior written notice to CDC/SBA of policy cancellation.*
- c) Personal Property:*
- i. Coverage must be in the amount of full replacement cost.*
 - ii. If full replacement cost insurance is not available, coverage must be for maximum insurable value.*
 - iii. Insurance coverage must contain a LENDER'S LOSS PAYABLE CLAUSE in favor of CDC/SBA. This clause must provide that any action or failure to act by the debtor or owner of the insured property will not invalidate the interest of CDC/SBA. The policy or endorsements must provide for at least 10 days prior written notice to CDC/SBA of policy cancellation.*

2018 PSUI Update: REPEAT: While corrective actions may have been pursued by the CDC since the last review, the issue has repeated in the majority of 2018 review files.

2017 ILR Finding #3 - CDC should immediately obtain access to the SBA Lender Portal and address any deficiencies noted in that report and report on same to the CDC Board: During the course of the review, CDC senior management noted that the CDC does not yet have access to the Lender Portal and is waiting for SBA to respond to its request for access. The Lender Portal holds all key SMART data recaps and is a management tool the SBA expects the CDC and its Board to be well versed in. The individual SBPS scores for each loan also provide a good comparison tool for the CDC to test its risk ratings against. The CDC had requested this prior to the last year's review, but does not yet have access.

2018 PSUI Update: Corrective action completed by new management since last review.

2017 Loan Review Recommendations:

2017 ILR recommendation #1 – CDC should obtain a status update on third party loan at regular intervals [repeat]: The CDCs have always had this requirement based on the old servicing SOP reference (SOP 50 50 4, Chapter 12, part c. General Servicing requirements, "...#19. The CDC must Take the following actions in servicing 503/504 loans... #f. Monitor other financing with liens senior to the 503/504 loan to ensure that payments are current..."). C is currently accomplishing this only when there are payment problems. Though the new SOP is more vague (on purpose) as to these requirements, there remains the expectation that a prudent lender in a subordinate lien position would periodically check with the senior lien holder to check for early signs of potential payment problems that

could eventually flow to the 504 loan. It is such a common occurrence with the 504 program that the senior lien holder is experiencing delinquency and the 504 is not, that it is prudent to request an update on a regular basis, rather than be surprised by a bank foreclosure notice. An additional item related to this process was brought to the Reviewer's attention by the OCRM Contract Review team; the Mercadien Group would like the recommendation to include obtaining confirmation of the current TPL payment amount and interest rate, to ensure that CDC's annual financial analysis has the appropriate payment amounts and thus accurate cash flows.

2018 PSUI Update: Corrective actions noted since the last review.

2017 ILR recommendation #2 – This recommendation is related instituting the use of various checklists in the Servicing and Liquidation process, and establishing clear-cut procedures as to action items in Liquidation & Intensive Servicing, so that all can be reviewed and tested in the future [repeat]:

Throughout the review, it was sometimes difficult to track the chronology of events for a given action or recommendation. We suggest creating several checklists, such as Liquidation checklist that will allow an outside source to better ascertain the chronology of events and current file status. As the CDC fully integrates into the LMS system, they might also choose to do this monitoring/tracking in the History section of the software. CDC intensive servicing and liquidation procedures need to be enhanced relates to current standards of practice recommended by the reviewer in following consistent processes for various complex servicing actions and liquidations.

2018 PSUI Update: Repeat: however, corrective actions have been noted since the last review..

2017 ILR recommendation #3 – This recommendation is for the CDC to consider utilizing a 4506 tax transcript cover memo [repeat]:

4506 transcript signatures and dates are difficult to read and no conclusion as to the comparability is noted.

2018 PSUI Update: Not addressed.

2017 ILR recommendation #4 – CDC needs to more quickly address missing file items such as annual financials and proof of insurance:

Though a significant improvement has been made in that the items are being requested on a more timely basis, the CDC needs to improve on its actual collection of the required information in order to best manage its portfolio and monitor risk.

2018 PSUI Update: Repeat: however, corrective actions have been noted since the last review.

SECTION III. 2018 Independent Loan Review Findings and Recommendations:

Section III, Part A. About the Review:

In 2017, the CDC loan portfolio sampling taken revealed that the CDC appeared to have turned the corner on its Portfolio Management issues after several years with little progress. Program Manager Venters had continued to make both the SBA- and reviewer-requested changes in the CDC portfolio origination and management process. The SBA and ILR citations from 2013/2014/15/16 all continued to be addressed. However, in 2018, the CDC had a set back to its progress, when the Program Manager Venters left the organization early in the year for a position with another CDC. That left the progress stalled until the hiring of the new Program Manager, Omar Fortune, in September 2018. Program Manager Fortune has extensive experience with Houston area non-profits and a long term banking background. It appears that his background meshes well with the CDC industry and the key to his success at H-GALDC will be in the continuation of attention to portfolio management and compliance and CDC-specific training, as well as increasing loan production to meet SBA's statutory minimum requirements.

Sampling discussion: The Loan review consisted of an eleven-loan fully random sampling. This included eight (8) Active, funded loans, extracted from the CSA Status of Portfolio report from September 1, 2018 (as of 8/31/2018), these are legacy loans (legacy = loans funded in excess of 1 year, but less than two, or since the last OCRM review). This represents 5.26% of the active funded portfolio with the legacy date range expanded to include all active loan statuses, including current, past due, deferred and in catch-up. Six files reviewed in this category were repeat files from other reviews and were reviewed again to fill out the file sampling and will be looked to primarily for servicing compliance. A separate 100% (normally a 10% minimum) sampling of the new fundings/emerging portfolio group (loans funded less than one year prior to the review date), or one (1) loan. A separate 100% (normally a 3-5% minimum) sampling of the "approved, not yet funded" portfolio group, or one (1) loan. SBA does not require this part of the sampling, but the reviewer finds it is the best reflection of all current CDC practices during the application process. There were one new active Liquidation reported (of three files) and it was the loan sampled from this category for a 33.33% sample. CDC Internal Control calls for 15-loan sampling size, but due to little to no production for the past five years, this figure is not feasible and has been adjusted by reviewer to maintain sufficient sampling size based on SBA and reviewer standards. The CDC system report was in balance with the CSA Status of Portfolio this year. Even when in balance, it is always recommended that a CDC periodically undertake a regular process to balance its internal loan management system with the CSA system to ensure all files are being properly monitored; quarterly would be sufficient based on most CDCs' volume.

Ongoing computerized ticklers have been used at varying levels of proficiency by CDC staff for loan servicing needs, including but not limited to annual financial requirements requests, TPL verifications, UCC continuations and all insurance requests. The CDC converted to Ventures+ in 2017 and the new system's tracking was initially different from traditional ticklers, but in 2018 the system added ticklers to the tracking area and the CDC is utilizing those ticklers in its servicing efforts. Ongoing training effort in this area must continue to ensure SBA-compliant loan servicing efforts. In any loan portfolio, the receipt of individual file information will be at varying stages. Thus, the key is follow-up for missing items and its frequency. CDC uses a property tax service to track property taxes. **The servicing file exceptions (noted on page 28 of this report) were at the same level in 2018 as in 2017 (29 items).**

Section III, Part B. 2018 Review Findings:

2018 Loan Review Findings:

In light of the improvements made, the past findings will not be re-stated. Instead the focus is on the present operation and staffing. As such, there are four (4) findings for this review.

2018 Loan Review Finding #1 – REPEAT – CDC new loan productions is below the SBA statutory minimum in order to maintain licensing:

The CDC needs to address the loan production issue with SBA as soon as possible as any other effort may be in vain without SBA's concurrence that the CDC can continue to operate while not having met minimum production requirements.

2018 Loan Review Finding #2 – REPEAT – CDC should obtain the pertinent policy pages and/or a complete copy of the property insurance policy to verify both endorsements and cancellations language requirements:

This finding relates to ACORDs, which typically refer the assignees back to the original policy for cancellation language and do not always contain the necessary endorsements for mortgagee for real property or Lender Loss Payee for personal property. The ACORDs rarely provide the cancellation language on the face of the ACORD document any more. As a result, it is now being recommended that, at least at closing and then intermittently on a go-forward basis, the CDC (or CDC closing counsel at closing) obtain and review a complete copy of the Policy to ensure knowledge of cancellation notice requirements, in addition to the appropriate endorsements pages to ensure proper coverage position in the event of a loss. The OCRM team continues to cite this item as one its top review findings and references the following SOP section as its basis for this finding (SOP 50 10 5 J, Subpart C, Chapter 5, Section I, part D, Insurance Requirements):

1. *Hazard Insurance (13 CFR §120.160(C))*
 - a) *SBA requires hazard insurance on all assets pledged as collateral. If the business is located in a state that requires additional coverage such as wind, hail, earthquake or other, on the hazard insurance, the borrower must provide a separate policy.*
 - b) *Real Estate:*
 - i) *Coverage must be in the amount of the full replacement cost.*
 - ii) *If full replacement cost insurance is not available, coverage must be for the maximum insurable value.*
 - iii) *Insurance coverage must contain a MORTGAGEE CLAUSE (or substantial equivalent) in favor of the CDC/SBA. This clause must provide that any action or failure to act by the mortgagor or owner of the insured property will not invalidate the interest of CDC/SBA. The policy or endorsements must provide for at least 10 days prior written notice to CDC/SBA of policy cancellation.*
 - c) *Personal Property:*
 - i) *Coverage must be in the amount of full replacement cost.*
 - ii) *If full replacement cost insurance is not available, coverage must be for maximum insurable value.*
 - iii) *Insurance coverage must contain a LENDER'S LOSS PAYABLE CLAUSE in favor of CDC/SBA. This clause must provide that any action or failure to act by the debtor or owner of the insured property will not invalidate the interest of CDC/SBA. The policy or endorsements must provide for at least 10 days prior written notice to CDC/SBA of policy cancellation.*

Across the country, CDC's have produced evidence of State Laws that require notice under law so long as appropriate mortgagee endorsement is in place. Though the SBA requirements must be met regardless of these State statutes, evidence of this type of statute does somewhat mitigate findings specific to this item.

2018 Loan Review Finding #3 – CDC should take steps to ensure that risk rating striation used in CDC Ventures system matches CDC risk rating striation and definitions as detailed in Internal Controls:

It appears that the Ventures striation is allowing for more detail within each category. However, based on current Internal Control Policy, CDC risk rating scale is 5 sectors noted as follows:

- 1 - Acceptable
- 2 - Special Mention
- 3 - Substandard
- 4 - Doubtful
- 5 - Loss or Liquidation

And, the CDC risk rating system set up in Ventures as an 7-sector system as follows:

- 1 - Substantially risk free
- 2 - Minimal risk
- 3 - Acceptable business risk
- 4 - Special Mention
- 5 - Substandard
- 6 - Doubtful
- 7 - Loss

Recommendation is to determine which is the format preferred and then to cover it in internal controls so risk rating process is consistent from policy to system.

2018 Loan Review Finding #4 – CDC change two-year job confirmation letter:

The CDC needs to change its two-year jobs confirmation letter to ensure compliance with SBA requirements for this important tracking item. The letter is being consistently sent in the appropriate time frame, but the letter does not comply with current SBA standards for this letter as it must provide for the certification to be **as of the exact two-year anniversary date of funding**.

Section III, Part C. 2018 Review Recommendations:

2018 Loan Review Recommendations:

The following items are based on current standards of practice observed in the industry by PSUI and do not rise to the level of findings, but instead are recommendations for CDC to consider possible changes and based on other successful CDC operations practices.

2018 Loan Review Recommendation #1 – Based on current OCRM review team activity, CDC should confirm how SBA would like to have Liability and Worker's Comp Insurances handled in the future:

SBA has had two differing approaches to these items in the past with most CDCs opting to confirm these insurances at closing but not to place them in the required insurances area of the loan authorization. However, in recent months it has come to the reviewer's attention that the OCRM teams are currently issuing findings if these particular insurances are not included in required insurances for every new Loan Authorization reviewed. CDCs have handled the item differently, with some providing a policy of confirmation of same at closing, but most have opted to simply add one or both of these two insurances to all future loan authorizations. Collateral preservation insurances are always required and have been provided for in the CDCs loan authorizations. The issue has been interpreted differently by SBA in the past, as the servicing burden increases exponentially with added insurances (as Small business owners usually do not bundle these items and have multiple carriers), but the current school of thought at SBA is to include them in the Loan Authorization again.

However, according to the State of Texas, Workers' Compensation insurance is optional for Texas employers. Construction companies on contract for governmental entities, however, must have coverage. Sole proprietors, partners, corporate officers, and LLC members in are included under state coverage, but can choose to opt out. Employers not carrying insurance are non-subscribers and must notify employees, but could be liable in a civil suit. Workers have the legal right to file compensation claims if they think they have a genuine case and their employer refuses to pay benefits. So Texas businesses have the option to purchase from a commercial provider or Texas' state-administered fund. Approved businesses may self-insure.

2018 Loan Review Recommendation #2 – The CDC should look to complete consistent periodic updates all of its Policy manuals. In recent OCRM reviews, it has become apparent that the SBA OCRM review process is increasing requirements for more detail in CDC policies. This recommendation is designed to suggest that the CDC undertake a regular process of reviewing and updating CDC policies through industry outreach, ILR recommendations and SBA training.

2018 Loan Review Recommendation #3 – Set up several new tracking/tickler items in Ventures:

Set up several new tracking/tickler items including but not limited to: TPL update, EPC financials and property tax tracking (for when delinquent) and change Insurance request letter CDC utilizes to include cancellation language requirements.

2018 ILR recommendation #4 – This recommendation is related instituting the use of various checklists in the Servicing and Liquidation process, and establishing clear-cut procedures as to action items in Liquidation & Intensive Servicing, so that all can be reviewed and tested in the future [repeat]:

Throughout the review, it was sometimes difficult to track the chronology of events for a given action or recommendation. We suggest creating several checklists, such as Liquidation checklist that will allow an outside source to better ascertain the chronology of events and current file status. As the CDC fully integrates into the Ventures system, they might also choose to do this monitoring/tracking in the History section of the software. CDC intensive servicing and liquidation procedures need to be enhanced as it relates to current standards of practice recommended by the reviewer in following

consistent processes for various complex servicing actions and liquidations. This is especially vital at H-GALDC as the Statesmen Company and other Lender Service Providers may complete some of these items on behalf of the CDC.

2018 ILR recommendation #5 – This recommendation is for the CDC to consider utilizing a 4506 tax transcript cover memo:

4506 transcript signatures and dates are difficult to read and no conclusion as to the comparability is noted. This is especially vital at H-GALDC as the Statesmen Company often completes these items on behalf of the CDC.

2018 ILR recommendation #6 – CDC needs to more quickly address missing file items such as annual financials and proof of insurance:

Though a significant improvement has been made in that the items are being requested on a more timely basis, the CDC needs to improve on its actual collection of the required information in order to best manage its portfolio and monitor risk.

Section III, Part D. 2018 SMART recap:
(from SBA Lender Portal)

<u>Solvency and Financial Condition:</u>	Lender Results	Lender Benchmark	Score	Peer Group	Portfolio
5 year Cumulative Net Yield	2.10%	Lower Risk	1	0.80%	1.00%
12-month Default Rate	0.40%	Moderate Risk	3	0.70%	0.60%
5-year Default Rate	0.80%	Moderate Risk	3	1.00%	0.90%

<u>Management and Board Governance:</u>	Lender Results	Lender Benchmark	Score	Peer Group	Portfolio
Forecasted Purchase Rate	3.04%	Higher Risk	5	1.50%	1.04%
High Risk Origination Rate	0.00%	Lower Risk	1	8.10%	7.30%
Loans in Purchase Status > 3 yr. Rate	0.00%	Lower Risk	1	27.10%	27.40%

<u>Asset Quality:</u>	Lender Results	Lender Benchmark	Score	Peer Group	Portfolio
Stressed Loan Rate	8.90%	Moderate Risk	3	3.50%	2.10%
5-year charge off Rate	14.60%	Moderate Risk	3	5.70%	4.60%
Early Problem Loan Rate	0.00%	Lower Risk	1	2.10%	1.90%

<u>Regulatory Compliance:</u>	Lender Results	Lender Benchmark	Score	Peer Group	Portfolio
Minimum Level of 504 Activity	2	Higher Risk	5	26	54

Technical Issues and Mission:	Lender Results	Lender Benchmark	Score	Peer Group	Portfolio
Ave. Portfolio SBPS Score	193	Moderate Risk	3	195	195
Top Industry Concentration rate	22.20%	Moderate Risk	3	19.70%	14.50%
SMART SCORE			32		

Section III, Part E. Conclusion:

In the past, the reviewer has observed H-GALDC working very hard to address issues in its delivery and management of the 504 program, though there have been several stalling points along the way due to senior staffing changes. The timing of the current review shows a CDC that has experienced another leadership change in 2018 when a new program manager was hired in September. **The program manager has brought significant non-profit and lending experience to the table and this should allow the organization to continue moving past historical issues.** However, the CDC has not met its statutory minimum loan production requirement for four years and the SBA has been systematically decertifying CDCs that have not done so. As with the 2017 review, the CDC needs to address the loan production issue with SBA as soon as possible as any other effort may be in vain without SBA's concurrence that the CDC can continue to operate while not having met minimum production requirements.

As noted earlier in this report, as SBA OCRM and OCRM contractors complete more SMART reviews, they are providing feedback on CDC policies each year and/or with each new review, which have likely evolved and may be different from and contain additional requirements over previous reviews. Until the process normalizes over time, and CDC policies likely become more consistent and cohesive as a group, it is likely that the OCRM teams will continue to provide new citations on existing policies and suggest the addition of new policies and policy language where they deem appropriate. While that may occur in the future, it is not indicative of a failure to address, but is more of an SBA process of bringing all CDC policies to a central consistency point.

CDC Loan Production impact on future of CDC operations:

At the present time, the CDC is still not in compliance with the annual volume requirements and its certification may be in jeopardy per the results noted in the table below.

Houston Galveston Area LDC Loan Production recap

Fiscal Year	CDC#	CDC Name	# of Loans Approved	\$ of approvals
9/30/11	06-284	Houston Galveston Area LDC	10	\$ 7,176,000.00
9/20/12	06-284	Houston Galveston Area LDC	11	\$ 9,842,000.00
9/30/13	06-284	Houston Galveston Area LDC	5	\$ 4,685,000.00
9/30/14	06-284	Houston Galveston Area LDC	0	\$ -
9/30/15	06-284	Houston Galveston Area LDC	3	\$ 2,672,000.00
9/30/16	06-284	Houston Galveston Area LDC	0	\$ -
9/30/17	06-284	Houston Galveston Area LDC	1	\$ 757,000.00
8/31/18	06-284	Houston Galveston Area LDC	1	\$ 1,418,000.00

SOP 50 10 5 J, Page 57**Chapter 3, Certified Development Companies****Section II. Becoming a CDC and Operational Requirements****E. Minimum Level of Activity and Restrictions on Portfolio Concentrations (13 CFR § 120.828):**

A CDC must have at least four (4) different loans approved during the last two (2) consecutive fiscal years, and the portfolio must be diversified as to type of business.

Section III, Part F. Next Steps:

Per the SBA Independent Loan Review guide released May 1, 2015, CDC must now present the report to the Board of Directors, with a summary of the Board of Director's position on the findings and their plan for operational improvement and a record of same in the minutes, and same record sent to the reviewer for the reviewer's records. As such, the CDC should have a record of every Board member signing off that they have seen the report and maintain detailed Board minutes as to this review and the action plans determined by the Board based upon that review. Then, the ILR Contract & Letter Agreement, Final Report, and Board-approved action plan must be included in the CDC Annual Report.

SECTION IV. 2018 Independent Loan Review Sampling Discussion and Statistical Review

PRELIMINARY ITEMS

Review of Credit Scoring Process (also known as “Pre- or At-Application” risk rating)

Does the CDC employ an up-front Credit scoring system? Yes X No X

If **yes**, comment on type of system, rating categories and criterion. Then move on to sample pages and conclusions. Comments on existing system if any:

CDC’s policy manuals indicate the use of an At-Application and post funding risk rating system, which uses a 5-point system; this is inconsistent with system risk rating completed utilizing a 7-point system.

Review of Credit Scoring Process (also known as “At-Closing/Funding” risk rating)

Does the CDC employ an At-Closing/Funding Credit scoring system? Yes X No

If **yes**, comment on type of system, rating categories and criterion. Then move on to sample pages and conclusions. Comments on existing system if any:

No longer applicable per SBA after May 2014 NADCO meeting discussion, as long as CDC performs sufficient analysis during the adverse change review, and H-GALDC historically has based on required SBA approval of NAC determination 327’s.

Review of Post-Funding Loan Rating Process (also known as “Loan Grading”)

Does the CDC employ a Loan Grading system? Yes X No X

If **yes**, comment on type of system, rating categories and criterion. Then move on to sample pages and conclusions. Comments on existing system if any:

CDC’s policy manuals indicate the use of an At-Application and post funding risk rating system, which uses a 5-point system; this is inconsistent with system risk rating completed utilizing a 7-point system.

Random Sampling Group: Normal selection criteria of 4-5% of Funded, Active Files as of 8/31/2018 (reports dated 9/1/2018), overridden as necessary to meet or exceed sampling required in CDC Internal Control Policy. Sampling size was smaller than internal controls number due to lack of loan production and declining portfolio size.

Sample File breakdown by status and statistical basis for sampling number:

8 files approved and funded over 1 year (Legacy)

1 file approved and funded under one year (new/emerging)

1 files from approved not yet funded

1 files from the active liquidation files

11 total files reviewed

File type	Total # sample files/ Total # in Group	% of total #	Total \$ sample files/ Total \$ in group	% of total \$ in group	% of total Active Portfolio \$
Legacy*	8	5.26%	5,729,576	10.11%	9.85%
	152		56,646,692		
New/emerging*	1	100.00%	1,507,552	100.00%	2.59%
	1		1,507,552		
Unfunded approvals	1	100.00%	757,000	100.00%	
	1		757,000		
Active Liquidations	1	33.33%	1,725,525	46.67%	
	3		3,696,925		
Totals	11*	153	58,154,244	#VALUE!	
	Total Sampling	Total active*	Total Active*		

CDC Internal Controls parameters for sampling (test against sampling above)					
	Actual Count	Reviewer Sampling Standards	Calculated	Per CDC ICP	
New loans	1	20% randomly selected	1.0	0	
Legacy loans	152			0	
Random selection	0	5% of current performing loans	8.0	0	
In deferment at time of review	0	5%	0.0	0	
In catch-up at time of review	0	5%	0.0	0	
Delinquent at time of review	9	5%	0.0	0	
Early default since last review	6	5%	0.0	0	
Watch List (part of Legacy)	Client	5%	Client	0	
Liquidations	3	5%	1.0	0	
Approved not funded	1	5%	1.0	0	
			11	15	

*CDC Internal Control calls for 15-loan sampling size, but due to little to no production for the past five years, this figure is not feasible and has been adjusted by reviewer to maintain sufficient sampling size based on SBA standards.

= loans previously reviewed; servicing aspects only will be reviewed in this ILR; origination items will not.

Power Steering's 11-loan total sampling and sampling criteria meets or exceeds these suggested sampling methodology put forth by both the CDC and the SBA, including reviews of recent approvals and recent liquidations. It meets or exceeds the CDC Internal Controls Policy criteria as well, though adjustments have been made due to decreased loan volumes as follows: CDC Internal Control calls for 15-loan sampling size, but due to little to no production for the past five years, this figure is not feasible and has been adjusted by reviewer to maintain sufficient sampling size based on SBA standards.

Number of Funded Files per CSA: 153 (Status of Portfolio – Exhibit A.)

Number of Funded Files per CDC 153 (CDC Audit report on Active files –
internal system report generated by Exhibit B.)

CDC staff:

CDC system in balance with CSA as of review date? Yes.

Number of Legacy Files (including recent fundings) with Loan Grade Assigned (9 files):

7 of 9 Legacy (including new funding) Files, or 78% had a risk rating current within last 12 months.

A current risk rating report for the portfolio was provided, with 153 of 153 files (100%) listed detailing a risk rating under the CDC's revised risk rating process, though some are dated. The SBA has moved

away from accepting risk rating intervals of 18 months and is relaying its expectation for annual reviews and risk ratings post funding in its current SMART reviews.

The risk ratings closely follow the FFIR naming convention and category specifications. It appears that the Ventures striation is allowing for more detail within each category. However, based on current Internal Control Policy, CDC risk rating scale is 5 sectors noted as follows:

- 1 - Acceptable
- 2 - Special Mention
- 3 - Substandard
- 4 - Doubtful
- 5 - Loss or Liquidation

And, the CDC risk rating system set up in Ventures as an 7-sector system as follows:

- 1 - Substantially risk free
- 2 - Minimal risk
- 3 - Acceptable business risk
- 4 - Special Mention
- 5 - Substandard
- 6 - Doubtful
- 7 - Loss

Based on the review of the ratings applied, it is apparent that the CDC is utilizing the Ventures set of risk ratings and not it Internal Controls ratings. It has been recommended in this review that the CDC determine which is the format preferred and then to cover it in internal controls so risk rating process is consistent from policy to system.

For the sake of this section of the review, the Ventures ratings will be discussed for potential changes. The table below notes specific file risk ratings where PSUI would like to see more detailed analysis (or other adjustments as noted).

Risk Rating Review of Legacy and New Funding Files					
Review File #	File Name	Loan #	Rating on file	Recommended change and/or discussion item	Other Notes
2	Berryhill	6049135004	3	Based on Ventures categories, recommend a rating of "4" Special Mention while in Catch-up.	5 payments past due.
3	Texas One	5478815000	3 (out of date)	Review for new rating due to lack of current financials a "4" recommended in Ventures.	Payments are current
4	Gloria's	5571165000	3	Based on Ventures categories, recommend a rating of "4" Special Mention while no current financials.	Payments are current
5	Anna Munne	3520136010	3	Based on Ventures categories, recommend a rating of "4" Special Mention while past due.	2 Payments past due.
6	Winds of Change	3454645004	2	Based on Ventures categories, recommend a rating of "4" Special Mention while past due.	2 Payments past due.

7	Hendrix	3215066006	2	Based on Ventures categories, recommend a rating of "4" Special Mention while past due.	2 Payments past due.
8	Ennis	2501206007	2	Based on Ventures categories, recommend a rating of "4" Special Mention while past due.	2 Payments past due.
9	Sleep Inn	7238745003	3 (out of date)	Review for new rating due to lack of current financials a "3" recommended in Ventures.	Payments are current

Note: Reviewer has not historically tested for Board reporting – CDC should be reporting both Risk Ratings and Portfolio concentrations to its Board of Directors at least semi-annually.

Analyses of Concentrations of Credit:

NAICS Codes assigned for Concentration of Credit:

6-Digit NAICS:

153 of all funded files, with \$58,154,244 total balance (per CDC system report provided), had a **6-digit NAICS** code assigned, for 100% based on CDC report numbers; broken down by numbers and dollars below.

The largest **number of loans** outstanding to the following groups:

- 721110 – Hotel and Motels – 21 loans, for 13.72%
- 722511 – Full Service Restaurant – 15 loans, for 9.80%
- 447110 – Gas Station C Stores – 12 loans, for 7.84%
- 621111 – Offices of Physicians – 12 loans, for 7.84%

The largest **dollar volume** outstanding to the following groups:

- 721110 – Hotel and Motels - \$11,510,296, for **19.79%** of total portfolio dollars
- 722511 – Full Service Restaurant - \$9,176,053, for 15.77% of total portfolio dollars
- 447110 – Gas Station C Stores - \$4,587,692, for 7.88% of total portfolio dollars

3-Digit NAICS:

153 of all funded files, with \$58,154,244 total balance (per CDC system report provided), had a **3-digit master NAICS** code assigned, for 100% based on CDC report numbers; broken down by numbers and dollars below.

The largest **number of loans** outstanding to the following groups:

- 621 – Ambulatory Health Care Services - 24 loans, for 15.68%
- 721 – Accommodations – 21 loans, for 13.72%
- 722 – Food Services and Drinking Places – 17 loans, for 11.11%

The largest **dollar volume** outstanding was to the following groups:

- 721 – Accommodations - \$11,510,296 total, for **19.79%** of total portfolio dollars
- 722 – Food Services and Drinking Places - \$9,522,513 total, for 16.37% of total portfolio dollars
- 621 – Ambulatory Health Care Services - \$7,591,883, for 13.05% of total portfolio dollars

Exceptions:

There were two sets of NAICS codes each for Full Service restaurants (722110/722511) and for limited Service Restaurants (722211/722513). This has been addressed and corrected by consolidating the data under one code for each of the impacted industry sectors.

Franchises Codes assigned for Concentrations of credit:

The CDC reported three (3) active franchise loans in its portfolio, and the reviewer identified another 18 in the hotels category, with specifics on the largest grouping of loans outstanding as follows (including loans added to list by reviewer:

Franchise Name	Primary Loan Balance	% of Total \$	Total #	% of Total #
Sleep Inn & Sleep Inn Suites	\$ 1,507,552.04	2.59%	1	0.65%
Berryhill Baja Grill & Cantina	\$ 1,406,455.96	2.42%	1	0.65%
Comfort Inn & Suites	\$ 1,191,851.14	2.05%	2	1.31%
Wingate	\$ 1,052,055.10	1.81%	1	0.65%
Country Inn	\$ 1,006,565.85	1.73%	1	0.65%
Ramada	\$ 982,641.67	1.69%	1	0.65%
Super 8	\$ 924,873.58	1.59%	2	1.31%
Holiday Inn Express	\$ 877,038.11	1.51%	1	0.65%
Baymont	\$ 644,851.91	1.11%	1	0.65%
Deluxe Inn	\$ 469,875.02	0.81%	1	0.65%
Best Western	\$ 318,764.45	0.55%	1	0.65%
Candlewood	\$ 738,454.41	1.27%	1	0.65%
Eagle Inn	\$ 200,926.28	0.35%	1	0.65%
Days Inn	\$ 377,326.83	0.65%	1	0.65%
Executive Inn	\$ 292,845.68	0.50%	1	0.65%
Scottish Inn	\$ 196,817.98	0.34%	1	0.65%
ReMax	\$ 170,687.18	0.29%	1	0.65%
Rosegarden	\$ 167,759.35	0.29%	1	0.65%
Magnolia Country Inns	\$ 104,122.29	0.18%	1	0.65%

In reviewing the CDC NAICS reports, it appears as though a number of hotel franchises were not coded accurately and the reviewer added another 18 obvious franchises to the table above. It is recommended that the CDC undertake an effort to identify and properly categorize those loans and any other (often found in the restaurant and gas station categories) in its system for more accurate tracking.

Concentrations of Credit Conclusion & Recommendations

Small or declining balance portfolios will have higher concentrations simply as a function of mathematics. Both the 6-digit and 3-digit striations, as well as the franchise numbers, all appear to be within prudent lending standards for credit concentration percentages (typically 20% or less), as well as CDC policy guidelines. However, the CDC should continue to closely monitor new hotel financing requests as the “\$” concentration continues to be above or close to this standard. **Reviewer has not historically tested for Board reporting – CDC should be reporting both Risk Ratings and Portfolio concentrations to its Board of Directors at least semi-annually.**

Legacy Portfolio sampling (including recent fundings) breakdown by state (9 files):

Texas – 9 files

Legacy File Sampling (including recent fundings) breakdown by program level (9 files):

Regular – 9 files, ALP – 0 files, PCLP – N/A, Not Defined – 0 files

Legacy File Sampling (including recent fundings) breakdown by funding (calendar) years (9 files):

2007	1 file***	*** Older files brought into the legacy sampling in order to include delinquencies, deferments and catch-up files.
2008	1 file***	
2011	2 files***	
2013	2 files***	
2015	1 file	
2016	1 file	
2017	1 file	
Total	9 files	

Note: Normally, there are more current files brought into the Legacy and New Funding samples, but due to lack of loan production over the past several years, older files were reviewed.

Other miscellaneous notes:

Technology:

Company has converted to the Ventures+ software system, the successor organization resulting from the merger of Anchor LMS and Ventures+ software; Ventures+ to manage its 504 loan function, from Loan Underwriting and e504 submission to closing and servicing. The CDC is converting its remaining paper files to SharePoint digital file storage; the files reviewed in this report had been converted and were reasonably well-organized and easy to track.

SBA Citations (if any):

CDC received an on-site SMART Targeted Review during the week of **January 19, 2016**, with an "as of" date of **9/30/2015**, with a final report provided to the CDC **July 8, 2016**, and multiple CDC responses from **August, 2016 to June, 2017** and final acceptance by the SBA in **June, 2017**; the Review resulted in an assessment of Marginally Acceptable with Corrective Actions Required. No additional SBA reviews have been completed on CDC since that time. The reviewer was contracted to provide an Independent Loan Review and not to assist with the response and as such, will not be providing update comments on the SBA findings and recommendations.

CDC Loan Production impact on future of CDC operations:

At the present time, the CDC is still not in compliance with the annual volume requirements and its certification may be in jeopardy per the results noted in the table below.

Houston Galveston Area LDC Loan Production recap

Fiscal Year	CDC#	CDC Name	# of Loans Approved	\$ of approvals
9/30/11	06-284	Houston Galveston Area LDC	10	\$ 7,176,000.00
9/20/12	06-284	Houston Galveston Area LDC	11	\$ 9,842,000.00
9/30/13	06-284	Houston Galveston Area LDC	5	\$ 4,685,000.00
9/30/14	06-284	Houston Galveston Area LDC	0	\$ -
9/30/15	06-284	Houston Galveston Area LDC	3	\$ 2,672,000.00
9/30/16	06-284	Houston Galveston Area LDC	0	\$ -
9/30/17	06-284	Houston Galveston Area LDC	1	\$ 757,000.00
8/31/18	06-284	Houston Galveston Area LDC	1	\$ 1,418,000.00

SOP 50 10 5 J, Page 57**Chapter 3, Certified Development Companies****Section II. Becoming a CDC and Operational Requirements****E. Minimum Level of Activity and Restrictions on Portfolio Concentrations (13 CFR § 120.828):**

A CDC must have at least four (4) different loans approved during the last two (2) consecutive fiscal years, and the portfolio must be diversified as to type of business.

Additional discussion of CDC internal controls, Board Meeting structure and other:

- CDC's bylaws and articles of incorporation provided for file records were not subject to review by PSUI.
- CDC financial for December 31, 2017 was provided in the CDC annual report document. CDC also provided current interims financials.
- **Individual file statistic exception recap statistics (based on 9 legacy and new funding files):**
(See file exceptions table on next page)

LEGACY SAMPLE	Current Loan Grade (within past 12 months)?	NAC completed?	Life Ins / Mgmt Succession discussion?	1244 & Credit Memo Reviewed & financials?	Complete Use of proceeds and borrower verification?	4506 clearance?	Appraisal review complete?	Environmental Review complete?	Evidence of insurance endorsements and cancellation language?	If applicable, appropriate Collection, liquidation efforts & documentation	If applicable, job survey completed with evidence on file?	Required insurance on file?	If not, evidence of request found.	Required financial found?	If not, evidence of request found.	TPL contact?	Property Tax Verification?	UCC tickler, if any?	Other items of note?
1	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	N/A	Y	Y	N/A	Y	N/A	Y	Y	N/A	
2	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	Y	Y	N	Y	N	Y	Y	Y	Y	
3	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	N/A	Y	N	Y	N	Y	Y	Y	N/A	
4	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	N/A	Y	Y	N/A	N	Y	Y	Y	Y	
5	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	N	Y	N	Y	N	Y	N	Y	Y	
6	N	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	N	N	Y	N/A	N	Y	N	N/A	Y	
7	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	N	N	Y	N/A	N	Y	N	Y	N/A	
8	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	N	N	N	Y	N	Y	N	Y	N/A	No Life Insurance system tracking, but update request on file
NEWLY FUNDED SAMPLE	Current Loan Grade (within past 12 months)?	NAC completed?	Life Ins / Mgmt Succession discussion?	1244 & Credit Memo Reviewed & financials?	Complete Use of proceeds and borrower verification?	4506 clearance?	Appraisal review complete?	Environmental Review complete?	Evidence of insurance endorsements and cancellation language?	If applicable, appropriate Collection, liquidation efforts & documentation	If applicable, job survey completed with evidence on file?	Required insurance on file?	If not, evidence of request found.	Required financial found?	If not, evidence of request found.	TPL contact?	Property Tax Verification?	UCC tickler, if any?	Other items of note?
9	N	Y	N	Y	Y	Y	Y	Y	Y	N/A	N/A	Y	N/A	N	Y	N/A	Y	Y	Ventures tracking not in place for financials or UCCs.

= file exceptions and/or special notations

= Submission checklist not found or tracking items incomplete or missing.

= files reviewed previously, added to sampling for servicing review

SECTION V. 2018 Independent Loan Review: Individual File Working Papers

(next 11 pages)



= *Specific notations with recap
in table in report.*

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #1

SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	7675565006	GRAND LAKE WAREHOUSING TEXAS,	6/15/16

Originating CDC: HGALDC (Statesman Loan)
Portal Score: 200-300 SBPS Score – Low level risk (EPC/OC file)
CDC Assigned Grade: 3 = Last risk rating on file dated 9/11/2017 – post funding. (Current)

Notes:

- File Level: Regular
- Are frequent Findings from other CDC OCRM reviews evident in this file:
 - o **Risk Rating at Funding?** Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
 - o **Life Insurance needs reviewed?** Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
 - o **Evidence of proper approval on file?** Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
- Cost breakdown: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
- **4506 clearance on file:** Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
- **Appraisal review test:** Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
- **Environmental review test:** Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
- Detailed credit memo: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
- Screen out records: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.
- Two-year job survey review: Jobs letter is on file with borrower signature. **However, the letter does not comply with current SBA standards for this letter as it must provide for the certification to be as of the exact two-year anniversary date of funding.**
 Note: Has Job information been appropriately input in new CDC software? Yes.
- **New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation notification language evident?** No, a current proof of insurance was provided with mortgagee endorsements, **but SBA-required cancellation language was not provided; pertinent policy pages not on file.** Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable.

Test of Spreads versus Actual Statement:

- ✓ Previously reviewed; not reviewed again for origination or closing items; servicing review update only.

Comments: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.

- ✓ **Testing of Loan Grading process:** CSA Status matches grade status noted.

Comments: Current CSA status, Current CDC risk rating consistent with CSA status and risk rating policy criteria. Accurate based on Ventures categories.

- ➔ **Ticklers reviewed, match loan auth. requirements and results noted**

Comments:

- RE Hazard and Liability insurance required and on file (Ventures tracking and ticklers in place). WC insurance not required in Loan Auth.
- 2017 FYE financials on file. (Ventures tracking in place for OC and EPC).
- Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews.
- Property Tax Service was contracted for on all active files in 2014; monitoring method confirmed for this file.
- No UCC filings reviewed, RE only loan.

Action items and/or practice pointers (if any):

1. Change jobs letter to be compliant with SBA requirements.
2. Suggested: Set up several new tracking/tickler items including but not limited to: TPL update, EPC financials and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements.
3. Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language.
4. Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.

Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #2			
SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	6049135004	BERRYHILL-OAKFOREST	6/17/15
Originating CDC:	HGALDC (Statesman Loan)		
Portal Score:	200-300 SBPS Score – Low level risk		(EPC/OC File)
CDC Assigned Grade:	3 = Last risk rating on file dated 9/25/2017 – post funding.		(5 pmts past due)
Notes:			
- File Level: Regular - Are frequent Findings from other CDC OCRM reviews evident in this file: o Risk Rating at Funding? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. o Life Insurance needs reviewed? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. o Evidence of proper approval on file? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Cost breakdown: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. 4506 clearance on file: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Appraisal review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Environmental review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Detailed credit memo: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Screen out records: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Two-year job survey review: Jobs letter is on file with borrower signature. However, the letter does not comply with current SBA standards for this letter as it must provide for the certification to be as of the exact two-year anniversary date of funding. - Note: Has Job information been appropriately input in new CDC software? Yes. New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation notification language evident? No, a current proof of insurance was provided with mortgagee and lender loss payable endorsements, but SBA-required cancellation language was not provided; pertinent policy pages not on file. Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable. Collection activity: Borrower missed a catch-up payment resulting in delinquency; follow-up by CDC found on file.			
✓	Test of Spreads versus Actual Statement: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Comments: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.		
✓	Testing of Loan Grading process: CSA Status matches grade status noted. Comments: 5 pmts past due CSA status. Current CDC risk rating consistent with CSA status and risk rating policy criteria. Based on Ventures categories, recommend a rating of "4" Special Mention while in Catch-up.		
→	Ticklers reviewed, match loan auth. requirements and results noted. Comments: - RE & BPP Hazard and Liability insurance required and all items on file expired with request found (However, Ventures tracking and ticklers only in place for RE & BPP Hazard, need to add Liability). WC insurance not required in Loan Auth. 2016 and 2017 FYE financials requested but not yet on file. (Ventures tracking in place for OC and EPC). - Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews. - Property Tax Service was contracted for on all active files in 2014; monitoring method confirmed for this file. - UCC filings reviewed, monitoring method in place in Ventures collateral.		
Action items and/or practice pointers (if any):			
- Change jobs letter to be compliant with SBA requirements. - Suggested: When retaining copies of requests for information and collection activity documents, correspondence and emails, use caution in Ventures and SharePoint when retaining emails, convert them to PDFs instead of leaving them in ".msg" format which does not open consistently across other networks. - Suggested: Set up several new tracking/tickler items including but not limited to: TPL update, EPC financials and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements. - Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language. - Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.			
Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.			

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #3			
SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	5478815000	TEXAS ONE VOLLEYBALL	11/13/13
Originating CDC:		HغالDC (Statesman Loan)	
Portal Score:		200-300 SBPS Score – Low level risk (OC Borrower File)	
CDC Assigned Grade:		3 = Last risk rating on file dated 7/18/2014 – post funding. (Current)	
Notes:			
- File Level: Regular - Are frequent Findings from other CDC OCRM reviews evident in this file: o Risk Rating at Funding? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. o Life Insurance needs reviewed? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. o Evidence of proper approval on file? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Cost breakdown: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. 4506 clearance on file: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Appraisal review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Environmental review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Detailed credit memo: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Screen out records: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Two-year job survey review: Jobs letter is on file with borrower signature. However, the letter does not comply with current SBA standards for this letter as it must provide for the certification to be as of the exact two-year anniversary date of funding. - Note: Has Job information been appropriately input in new CDC software? Yes. New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation notification language evident? No, a current proof of insurance was provided with mortgagee endorsements, but SBA-required cancellation language was not provided; pertinent policy pages not on file. Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable.			
Test of Spreads versus Actual Statement:			
✓	Previously reviewed; not reviewed again for origination or closing items; servicing review update only.		
Comments:	Previously reviewed; not reviewed again for origination or closing items; servicing review update only.		
→	Testing of Loan Grading process: CSA Status matches grade status noted.		
Comments:	Current CSA status, No current risk rating. Review for updated rating due to lack of current financials with a "4" recommended in Ventures.		
→	Ticklers reviewed, match loan auth. requirements and results noted		
Comments:	- RE Hazard and Liability insurance required and all items on file (Ventures tracking and ticklers on file). WC insurance not required in Loan Auth. 2013 - 2017 FYE financials requested but not yet on file. (Ventures tracking in place). - Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews. - Property Tax Service was contracted for on all active files in 2014; monitoring method confirmed for this file. - No UCC filings reviewed, RE only loan.		
Action items and/or practice pointers (if any):			
- Change jobs letter to be compliant with SBA requirements. - Suggested: When retaining copies of requests for information and collection activity documents, correspondence and emails, use caution in Ventures and SharePoint when retaining emails, convert them to PDFs instead of leaving them in ".msg" format which does not open consistently across other networks. - Suggested: Set up several new tracking/tickler items including but not limited to: TPL update and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements. - Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language. - Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.			

Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #4			
SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	5571165000	GLORIA'S MIDTOWN HOUSTON, INC.	6/12/13
Originating CDC:	HGALDC (Statesman Loan)		
Portal Score:	180-199 SBPS – mid-to-lower level risk	(EPC/OC File)	
CDC Assigned Grade:	3 = Last risk rating on file dated 9/25/2017 – post funding.	(Current)	
Notes:			
- File Level: Regular - Are frequent Findings from other CDC OCRM reviews evident in this file: o Risk Rating at Funding? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. o Life Insurance needs reviewed? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. o Evidence of proper approval on file? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Cost breakdown: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. 4506 clearance on file: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Appraisal review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Environmental review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Detailed credit memo: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Screen out records: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Two-year job survey review: Jobs letter is on file with borrower signature. However, the letter does not comply with current SBA standards for this letter as it must provide for the certification to be as of the exact two-year anniversary date of funding. Note: Has Job information been appropriately input in new CDC software? Yes. New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation notification language evident? No, a current proof of insurance was provided with mortgagee and lender loss payable endorsements, but SBA-required cancellation language was not provided; pertinent policy pages not on file. Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable.			
✓	Test of Spreads versus Actual Statement: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Comments: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.		
✓	Testing of Loan Grading process: CSA Status matches grade status noted. Comments: Current CSA status, Current CDC risk rating consistent with CSA status and risk rating policy criteria. Based on Ventures categories, recommend a rating of "4" Special Mention while in financials are past due.		
→	Ticklers reviewed, match loan auth. requirements and results noted Comments: - RE & BPP Hazard and Liability insurance required and all items on file. (Ventures tracking in place) - WC insurance not required in Loan Auth. 2016 and 2017 FYE financials requested but not yet on file. (Ventures tracking in place for OC and EPC). - Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews. - Property Tax Service was contracted for on all active files in 2014; monitoring method confirmed for this file. - UCC filings reviewed, monitoring method in place in Ventures collateral.		
Action items and/or practice pointers (if any):			
- Change jobs letter to be compliant with SBA requirements. - Suggested: When retaining copies of requests for information and collection activity documents, correspondence and emails, use caution in Ventures and SharePoint when retaining emails, convert them to PDFs instead of leaving them in ".msg" format which does not open consistently across other networks. - Suggested: Set up several new tracking/tickler items including but not limited to: TPL update and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements. - Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language. - Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.			
Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.			

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #5			
SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	3520136010	ANNA M. MUNNE, D.D.S., P.A.	5/11/11
Originating CDC:	HGALDC (Statesman Loan)		
Portal Score:	180-199 SBPS – mid-to-lower level risk		(EPC/OC File)
CDC Assigned Grade:	3 = Last risk rating on file dated 1/10/2018 – post funding.		(2 pmts past due)
Notes:			
- File Level: Regular - Are frequent Findings from other CDC OCRM reviews evident in this file: o Risk Rating at Funding? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. o Life Insurance needs reviewed? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. o Evidence of proper approval on file? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Cost breakdown: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. 4506 clearance on file: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Appraisal review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Environmental review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Detailed credit memo: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Screen out records: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - Two-year job survey review: Jobs letter is on file with borrower signature. However, the letter does not comply with current SBA standards for this letter as it must provide for the certification to be as of the exact two-year anniversary date of funding. - Note: Has Job information been appropriately input in new CDC software? Yes. New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation notification language evident? No, a current proof of insurance not found – all items expired. Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable. Collection activity: Delinquency follow-up found in file (collection activity with supporting documents/letters/emails on file and in CDC monitoring software, Ventures). Quarterly report was not on file. No 60-day site visits found.			
✓	Test of Spreads versus Actual Statement: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.		
✓	Comments: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.		
✓	Testing of Loan Grading process: CSA Status matches grade status noted.		
	Comments: 2 pmts past due SA status, Current CDC risk rating consistent with CSA status and risk rating policy criteria. Based on Ventures categories, recommend a rating of "4" Special Mention while past due.		
➔	Ticklers reviewed, match loan auth. requirements and results noted		
	Comments: - RE & BPP Hazard and Liability insurance required and all items on file expired with request found. (Ventures tracking only in place for RE Hazard) - WC insurance not required in Loan Auth. 2017 FYE financials requested but not yet on file. (Ventures tracking in place for OC, EPC tracking not found). - Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews. - Property Tax Service was contracted for on all active e files in 2014; monitoring method confirmed for this file. - UCC filings reviewed, monitoring method in place in Ventures collateral.		
Action items and/or practice pointers (if any):			
- Change jobs letter to be compliant with SBA requirements. - Suggested: When retaining copies of requests for information and collection activity documents, correspondence and emails, use caution in Ventures and SharePoint when retaining emails, convert them to PDFs instead of leaving them in ".msg" format which does not open consistently across other networks. - Suggested: Consider instituting use of a standardized CDC servicing action checklist for collection efforts. - Suggested: CDC should keep copies of CSA reports reflecting various changes in status when problems occur. - Suggested: Set up several new tracking/tickler items including but not limited to: TPL update and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements. - Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language. - Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.			
Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.			

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #6			
SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	3454645004	WINDS OF CHANGE COSMETIC SUGER	1/12/11
Originating CDC:	HGALDC (Statesman Loan)		
Portal Score:	140-159 SBPS – mid-to-higher level risk		(EPC/OC File)
CDC Assigned Grade:	2 = Last risk rating on file dated 9/21/2017 – post funding.		(2 pmts past due)
Notes:			
• File Level: Regular • File Level: Regular • Are frequent Findings from other CDC OCRM reviews evident in this file: - o Risk Rating at Funding? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - o Life Insurance needs reviewed? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. - o Evidence of proper approval on file? Previously reviewed; not reviewed again for origination or closing items; servicing review update only. • Cost breakdown: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. • 4506 clearance on file: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. Appraisal review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. • Environmental review test: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. • Detailed credit memo: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. • Screen out records: Previously reviewed; not reviewed again for origination or closing items; servicing review update only. • Two-year job survey review: Jobs letter was not found on file. Note: Has Job information been appropriately input in new CDC software? Yes. • New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation language evident? No, a current proof of insurance was provided with mortgagee and lender loss payable endorsements, but SBA-required cancellation language was not provided; pertinent policy pages not on file. Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable. • Collection activity: Delinquency follow-up found in file (collection activity with supporting documents/letters/emails on file and in CDC monitoring software, Ventures). Quarterly report was not on file. No 60-day site visits found.			
✓	Test of Spreads versus Actual Statement: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.		
✓	Comments: Previously reviewed; not reviewed again for origination or closing items; servicing review update only.		
✓	Testing of Loan Grading process: CSA Status matches grade status noted. Comments: 2 pmts past due SA status, Current CDC risk rating consistent with CSA status and risk rating policy criteria. Based on Ventures categories, recommend a rating of "4" Special Mention while past due.		
✓	Ticklers reviewed, match loan auth. requirements and results noted Comments: • RE & BPP Hazard insurance required and all items on file. (Ventures tracking also in place for Liability) • Liability and WC insurance not required in Loan Auth. • 2015 - 2017 FYE financials requested but not yet on file. (Ventures tracking in place for OC and EPC). • Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews. • Property Tax Service was contracted for on all active files in 2014; monitoring method confirmed for this file. • UCC filings reviewed, monitoring method in place in Ventures collateral.		
Action items and/or practice pointers (if any):			
1. Suggested: When retaining copies of requests for information and collection activity documents, correspondence and emails, use caution in Ventures and SharePoint when retaining emails, convert them to PDFs instead of leaving them in ".msg" format which does not open consistently across other networks. 2. Suggested: Consider instituting use of a standardized CDC servicing action checklist for collection efforts. 3. Suggested: CDC should keep copies of CSA reports reflecting various changes in status when problems occur. 4. Suggested: Set up several new tracking/tickler items including but not limited to: TPL update and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements. 5. Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language. 6. Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.			
Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.			

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #7			
SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	3215066006	HENDRIX SPECIALTY FABRICATIONS	12/17/08
Originating CDC:		HGALDC (Statesman Loan)	
Portal Score:		140-159 SBPS – mid-to-higher level risk	(EPC/OC File)
CDC Assigned Grade:		2 = Last risk rating on file dated 9/14/2017 – post funding.	(2 pmts past due)
Notes:			
• File Level: Formerly ALP • Are frequent Findings from other CDC OCRM reviews evident in this file: - o Risk Rating at Funding? Not reviewed due to age of file and differing SBA policy/procedures at the time. - o Life Insurance needs reviewed? Not reviewed due to age of file and differing SBA policy/procedures at the time. - o Evidence of proper approval on file? Not reviewed due to age of file and differing SBA policy/procedures at the time. • Cost breakdown: Not reviewed due to age of file and differing SBA policy/procedures at the time. • Bank letter on file, with credit elsewhere addressed. CDC also addressed in its credit memo. • 4506 clearance on file: Not reviewed due to age of file and differing SBA policy/procedures at the time. • Appraisal review test: Appraisal not reviewed due to age of file. • Environmental review test: Environmental not reviewed due to age of file. • Detailed credit memo: Not reviewed due to age of file and differing SBA policy/procedures at the time. • New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation notification language evident? No, a current proof of insurance was provided with mortgagee endorsements, but SBA-required cancellation language was not provided; pertinent policy pages not on file. Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable. • 2-year job verification: Not found on file, but numbers are reflected in CDC loan management system. • Delinquency follow-up found in file (collection activity with supporting documents/letters/emails on file and in CDC monitoring software, Ventures). Quarterly report was not on file. No 60-day site visits found.			
Test of Spreads versus Actual Statement:			
✓	Application submission items not reviewed due to file age		
	Comments: Application submission items not reviewed due to file age.		
→	Testing of Loan Grading process: CSA Status matches grade status noted.		
	Comments: 2 payments past due CSA status, Current CDC risk rating consistent with CSA status and risk rating policy criteria. Based on Ventures categories, recommend a rating of "4" Special Mention while past due.		
→	Ticklers reviewed, match loan auth. requirements and results noted		
	Comments: • RE Hazard insurance required and all items on file. • Liability and WC insurance not required in Loan Auth. • 2016 - 2017 FYE financials requested but not yet on file. (Ventures tracking in place for OC and EPC). • Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews. • Property Tax Service was contracted for on all active files in 2014; monitoring method confirmed for this file. • No UCC filings reviewed, RE only loan.		
Action items and/or practice pointers (if any):			
1. Suggested: When retaining copies of requests for information and collection activity documents, correspondence and emails, use caution in Ventures and SharePoint when retaining emails, convert them to PDFs instead of leaving them in ".msg" format which does not open consistently across other networks. 2. Suggested: Consider instituting use of a standardized CDC servicing action checklist for collection efforts. 3. Suggested: CDC should keep copies of CSA reports reflecting various changes in status when problems occur. 4. Suggested: Set up several new tracking/tickler items including but not limited to: TPL update and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements. 5. Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language. 6. Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.			
Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.			

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #8			
SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	2501206007	ENNIS CHIROPRACTIC, PLLC	4/11/07
Originating CDC:	HGALDC		
Portal Score:	001-139 SBPS – Highest level risk		(OC Borrower File)
CDC Assigned Grade:	2 = Last risk rating on file dated 9/14/2017 – post funding.		(2 pmts past due)
Notes:			
• File Level: Formerly ALP • Are frequent Findings from other CDC OCRM reviews evident in this file: - o Risk Rating at Funding? Not reviewed due to age of file and differing SBA policy/procedures at the time. - o Life Insurance needs reviewed? Not reviewed due to age of file and differing SBA policy/procedures at the time. - o Evidence of proper approval on file? Not reviewed due to age of file and differing SBA policy/procedures at the time. . • Cost breakdown: Not reviewed due to age of file and differing SBA policy/procedures at the time. • Bank letter on file, with credit elsewhere addressed. CDC also addressed in its credit memo. • 4506 clearance on file: Not reviewed due to age of file and differing SBA policy/procedures at the time. • Appraisal review test: Appraisal not reviewed due to age of file. • Environmental review test: Environmental not reviewed due to age of file. • Detailed credit memo: Not reviewed due to age of file and differing SBA policy/procedures at the time. • New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation notification language evident? No, insurance on file is expired. Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable. • 2-year job verification: Not found on file, but numbers are reflected in CDC loan management system. • Delinquency follow-up found in file (collection activity with supporting documents/letters/emails on file and in CDC monitoring software, Ventures). Quarterly report was not on file. No 60-day site visits found.			
✓	Test of Spreads versus Actual Statement: Application submission items not reviewed due to file age. Comments: Application submission items not reviewed due to file age.		
✓	Testing of Loan Grading process: CSA Status matches grade status noted. Comments: Deferred CSA status, Current CDC risk rating consistent with CSA status and risk rating policy criteria. Based on Ventures categories, recommend a rating of "4" Special Mention while past due.		
→	Ticklers reviewed, match loan auth. requirements and results noted Comments: • RE Hazard insurance required and all items on file expired with request found. Liability and WC insurance not required in Loan Auth. • Life insurance i.a.o. \$239K required but not found on file and no Ventures tracking in place; update request found on file • 2015 - 2017 FYE financials requested but not yet on file. (Ventures tracking in place for OC). • Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews. • Property Tax Service was contracted for on all active files in 2014; monitoring method confirmed for this file. • No UCC filings reviewed, RE only loan.		
Action items and/or practice pointers (if any):			
1. Suggested: When retaining copies of requests for information and collection activity documents, correspondence and emails, use caution in Ventures and SharePoint when retaining emails, convert them to PDFs instead of leaving them in ".msg" format which does not open consistently across other networks. 2. Suggested: Consider instituting use of a standardized CDC servicing action checklist for collection efforts. 3. Suggested: CDC should keep copies of CSA reports reflecting various changes in status when problems occur. 4. Suggested: Set up several new tracking/tickler items including but not limited to: TPL update, Life Insurance and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements. 5. Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language. 6. Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.			

Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #9			
SBA District Office:	Loan Number:	Loan Name:	Funding Date:
HOUSTON DISTRICT OFFICE	7238745003	SLEEP INN – College Station	9/13/17
Originating CDC:	HGALDC (Statesman loan)		(NEW FUNDINGS)
Portal Score:	180-199 SBPS – mid-to-lower level risk		(OC Borrower File)
CDC Assigned Grade:	3 = Last risk rating on file dated 9/8/2015 – at application.		(Current)
Notes:			
• File Level: Regular • Are frequent Findings from other CDC OCRM reviews evident in this file: - o Risk Rating at Funding? SBA has clarified that risk rating at funding is not necessary, as long as Adverse Change review is completed and kept on file; HGALDC's "No adverse change certification letter" with SBA approval of same was found on file. 5/31/2017 interim financials reviewed. - o Life Insurance needs reviewed? No. Management ability/depth was discussed in the credit memo with life insurance not required, and the specific justification (for not requiring it) was not clearly stated in terms of management succession and collateral coverage, in accordance with SOP requirements. - o Evidence of proper approval chronology on file? Yes. • New business that supports repayment via in-depth analysis of projections required in the approval process. • Cost breakdown is typically supported by documentation on file, with a verification of same at closing completed by CDC, to go with supporting documentation copies provided. There was a worksheet with a copy of Settlement statement on file plus a bank generated itemized spreadsheet reflecting use of proceeds and injection found. • Bank letter on file, with credit elsewhere addressed. CDC also addressed in its credit memo. • 4506 clearance on file; N/A – new business. • Appraisal review test: Appraisal submitted at application, with sufficient analysis based on SBA approval and loan auth. • Environmental review test: Environmental submitted post approval with sufficient analysis at a Phase I based on SBA approval and Loan Auth. (Submission checklist not found) • Detailed credit memo was prepared at application. CAIVRS review is on file • Franchise review and approval obtained as appropriate. • New item: Is there an endorsed policy copy on file showing CDC as mortgagee and lender loss payee (where applicable), and is specific cancellation notification language evident? Yes, a current proof of insurance was provided with mortgagee and lender loss payable endorsements, and SBA-required cancellation language was provided; pertinent policy pages on file. Across the country, CDC's have produced evidence of State Laws that require notice under law so as long as appropriate mortgagee endorsement is in place. To date, no local CDC has produced any evidence of this type of law in this state and even with evidence of such a statute, it only represents a mitigating factor to the lack of expressly stated cancellation language per SOP requirements. SBA review teams are now requiring that mortgagee endorsements for real property collateral also have lender loss payable as well, though national insurance standards show that mortgagee designation already carries the effect of lender loss payable. • Screen out items noted during approval process. File initially declined with decline consideration presented and approved.			
Test of Spreads versus Actual Statement:			
✓	Projected financials in Spread compared accurately to financials in File.		
Comments:	Financials spread accurately & in-credit memo financial analysis appears sufficient based on SBA approval of the file.		
→	Testing of Loan Grading process: CSA Status matches grade status noted.		
Comments:	Current CSA status, No current risk rating. Review for updated rating due to lack of current financials with a "3" recommended in Ventures.		
→	Ticklers reviewed, match loan auth. requirements and results noted		
Comments:	• RE & BPP Hazard and Liability insurance required and all items on file. (Ventures tracking in place) • WC insurance not required in Loan Auth. • 2017 FYE financials requested but not yet on file. (Ventures tracking not in place). • Confirmation of TPL status requested and/or on file. SBA review teams have confirmed that this item is expected from a prudent lender practice standpoint including updates on TPL interest rates ensuring accurate cash flow coverage analysis in annual reviews. • Property Tax Service was contracted for on all active files in 2014; monitoring method confirmed for this file. • UCC filings reviewed, monitoring method in not yet place in Ventures collateral (Ventures collateral needs to have FF&E added to collateral list and then input UCC in lien recording area for future tracking).		
Action items and/or practice pointers (if any):			
1. Institute standard language in CDC credit memo to ensure Life Insurance vs. management succession is specifically addressed. 2. Suggested: When retaining copies of requests for information and collection activity documents, correspondence and emails, use caution in Ventures and SharePoint when retaining emails, convert them to PDFs instead of leaving them in ".msg" format which does not open consistently across other networks. 3. Suggested: Set up several new tracking/tickler items including but not limited to: TPL update and property tax tracking (for when delinquent) and change Insurance letter to include cancellation language requirements. 4. Suggested: Institute the obtaining of complete Hazard policy copy to review cancellation & endorsements language. 5. Continue to monitor "other" missing or requested annual servicing requirements and obtain necessary items where applicable.			
Result: File is substantially in compliance with SBA requirements, with requests for outstanding items (if any) noted.			

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #10		
Loan Number:	Loan Name:	Approval Date:
9575825007	TODDY BLENDS	6/28/17
Originating CDC:	HGALDC	(APPROVED, NOT FUNDED)
Portal Score:	N/A (not yet funded)	(EPC/OC File)
CDC Assigned Grade:	No risk rating on file.	(Closing)
Notes:		
• UNFUNDED SAMPLE • File Level: Regular • File was submitted 6/1/2017 and authorized by SBA on 6/28/2017. • Appraisal review test: Appraisal copy on file: SBA submission checklist and/approval not found. • Environmental review test: Environmental was submitted pre-application, with sufficient analysis at a Phase I, based on SBA approval and Loan auth. • Life insurance needs reviewed? Yes, management ability/depth was discussed in the credit memo and life insurance was not required, specific justification (for not requiring it) was stated in terms of management succession and collateral coverage per SOP requirements. • Existing business that supports repayment historically: in-depth analysis of projections not required in the approval process. • 4506 clearance completed? N/A – new business. • Cost breakdown is supported by documentation on file. • Bank letter is on file with credit elsewhere addressed; also noted in credit memo. • Detailed credit memo was prepared at application. CAIVRS review on file. • Multiple screen out items reviewed.		

Test of Spreads versus Actual Statement:



FYE 2015 and 12/31/2016 internal year-end financials in Spread compared accurately to financials in File.

Comments

Financials spread accurately and in-credit memo financial analysis appears sufficient based on SBA approval of the file. Projections also reviewed on a limited basis.



Testing of Loan Grading process: CSA Status matches grade status noted.

Comments

N/A – not yet funded.



Ticklers reviewed, match loan auth. requirements and results noted

Comments

N/A – not yet funded.

Action items and/or practice pointers (if any):

1. No "at application" risk rating found on file.

Result:

File appears to show adequate analysis at underwriting.

LOAN SAMPLING INDIVIDUAL CLIENT WORKSHEET #11		
Loan Number:	Loan Name:	Liquidation Date:
3147296002	DAYS INN AUSTIN	5/8/2018
Originating CDC:	HGALDC (Statesman assisted file)	(LIQUIDATION)
Portal Score:	N/A – repurchase loans not on Portal	(OC Borrower File)
CDC Assigned Grade:	Risk rating not set at 10/19/2016 review date.	(Transferred to SBA)
Notes:		
• LIQUIDATION SAMPLE • SBA authorized original application file on 1/30/2008 and funded 10/14/2009. • File notes indicate that this was an eminent domain seizure for a highway expansion project and prepayment was missed by deadline and since there was a shortfall on the SBA loan, the loan was placed in Liquidation and subsequently paid off. • Not a typical Liquidation file. Prepayment due to eminent domain seizure; then payoff was missed and SBA had to charge off the shortfall; thus loan was placed in Liquidation. No LIQ plan, PBA or other similar docs as this was LIQ to facilitate charge of a prepayment shortfall due to SBA error.		

Action items and/or practice pointers (if any):

1. None.

Result: CDC works in concert with the Liquidation staff at the CLSC and takes an active role in the collection process when requested by CLSC.

SECTION VI. EXHIBITS A, B & C:
(attached after this page)

Exhibit A. – CSA Status of Portfolio

Exhibit B. – CDC Internal Loan Listing (of active, funded files)

Exhibit C. – Miscellaneous Servicing Checklists examples

EXHIBIT A.

Status of Portfolio - 504 Program

CDC Report Date: 09/01/2018 As of: 08/31/2018

Number of months delinquent= # Over nine months delinquent= * L=Late Fee Only D=Deferred C=Catch Up Period P=Auto Paydown A=Five Year Break

CDC: 06-284 HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION

No	STATEMENT NAME	PGM	LOAN NO.	ISSUE DATE	MAT. DATE	LAST PAID	LOAN AMT.	MONTHLY PAYMENT	FEE/RSV	INT.	PRIN.	LATE	TOTAL DUE	ACTUAL BALANCE AT AUG 31	STATUS	REF
1	A TO Z FOOD & DELI (TEXACO) &	4	2653806009	04/11/2007	04/01/2027	08/02/2018	722,000.00	5,198.45	281.85	1,833.09	3,083.51	0.00	5,198.45	407,706.85		
2	AAS ENGINEERS INC	4	2469526008	10/15/2008	10/01/2028	08/02/2018	636,000.00	4,772.17	331.96	1,951.53	2,488.68	0.00	4,772.17	410,266.34	A	
3	ABC DUAL LANGUAGE LEARNING	4	3538050001	02/16/2011	02/01/2031	08/02/2018	144,000.00	964.35	71.54	369.77	523.04	0.00	964.35	103,545.61		
4	ADDI LLC	4	5725275002	10/16/2013	10/01/2033	08/02/2018	290,000.00	2,070.19	401.77	675.30	993.12	0.00	2,070.19	236,571.76	A	
5	ADVANCED PAIN MANAGEMENT SPECI	4	3690325004	04/13/2011	04/01/2031	08/02/2018	466,000.00	3,202.53	354.68	1,154.96	1,692.89	0.00	3,202.53	336,946.62		
6	AMAYAS COLLISION CENTER INC.	4	8524644007	08/17/2005	08/01/2025	08/02/2018	93,000.00	670.89	49.07	191.82	1,111.48	100.00	1,452.37	44,404.19	2	
7	ANNA M. MUNNE, D.D.S., P.A.	4	3520136010	05/11/2011	05/01/2031	08/02/2018	1,333,000.00	8,621.59	657.17	3,115.10	13,998.25	431.08	18,201.60	970,867.47	2	
8	APPLE TERMITE & PEST CONTROL I	4	4057445004	07/14/2010	07/01/2030	08/02/2018	184,000.00	1,239.36	139.37	405.10	694.89	0.00	1,239.36	125,922.08		
9	ART ENTERPRISES,LLC DBA ACCESS	4	1551226006	11/15/2006	11/01/2026	08/02/2018	281,000.00	2,054.26	135.50	692.18	1,226.58	0.00	2,054.26	152,801.25		
10	ASAD ABBAS, M.D., P.A.	4	3618886010	02/17/2010	02/01/2030	08/02/2018	281,000.00	1,872.48	142.49	662.35	1,067.64	0.00	1,872.48	189,044.25		
11	ASIA AUTO CARE	4	7416894010	02/14/2007	02/01/2027	08/02/2018	215,000.00	1,611.14	127.02	558.48	925.64	0.00	1,611.14	120,385.16		
12	BARRETT VENDING, LLC	4	5299755000	02/13/2013	02/01/2033	08/02/2018	196,000.00	1,228.57	214.47	282.02	732.08	0.00	1,228.57	150,445.50		
13	BAYCENTER FAMILY PHYSICIAN, PA	4	9022504005	01/17/2007	01/01/2027	08/02/2018	229,000.00	1,679.84	121.77	567.70	990.37	0.00	1,679.84	126,255.18		
14	BAYMONT INN & SUITES	4	2770256009	10/14/2009	10/01/2029	08/02/2018	988,000.00	6,469.34	500.27	2,139.75	3,829.32	0.00	6,469.34	644,851.91		
15	BAYOU PINES CARE CENTER	4	2951466001	09/16/2009	09/01/2029	08/02/2018	1,279,000.00	8,567.07	650.89	2,977.80	4,938.38	0.00	8,567.07	837,831.91		
16	BAYVIEW FM, LLC & DONNA RICH,	4	3038878000	04/16/2008	04/01/2028	08/02/2018	284,000.00	2,052.00	111.44	792.92	1,147.64	0.00	2,052.00	174,714.10		
17	BERRYHILL-OAKFOREST	4	6049135004	06/17/2015	06/01/2035	08/02/2018	1,545,000.00	10,721.04	2,140.47	3,551.86	55,255.07	0.00	60,947.40	1,406,455.96	5	
18	BEST WESTERN HERITAGE INN	4	8601764002	06/15/2005	06/01/2025	08/02/2018	711,000.00	4,911.07	367.70	1,232.22	3,311.15	0.00	4,911.07	318,764.45		
19	BETTER BEGINNING CHILDRENS CE	4	7471624002	08/16/2006	08/01/2026	08/02/2018	427,000.00	3,251.79	254.10	1,107.55	1,890.14	0.00	3,251.79	229,992.35		
20	BUSINESS CARDS TOMORROW	4	3109926000	11/12/2008	11/01/2028	08/02/2018	467,000.00	3,822.16	249.34	1,799.86	1,772.96	0.00	3,822.16	315,045.76	A	
21	CAFE PIQUET, INC.	4	7242474001	10/13/2004	10/01/2024	08/02/2018	254,000.00	1,810.57	146.62	435.55	1,228.40	0.00	1,810.57	105,985.15		
22	CATES CONTROL SYSTEMS INC.	4	3916255000	10/13/2010	10/01/2030	08/02/2018	617,000.00	3,929.53	461.04	1,106.49	2,362.00	0.00	3,929.53	419,912.58		
23	CAVAZOS FUNERAL HOME INC.	4	4697005010	03/14/2012	03/01/2032	08/02/2018	211,000.00	1,328.64	206.03	328.78	793.83	0.00	1,328.64	154,481.66		
24	CHALET CRYSTALE EVENT CENTER	4	3063286002	01/16/2008	01/01/2028	08/02/2018	497,000.00	3,536.16	196.01	1,317.12	6,062.52	179.93	7,755.58	301,380.15	2	
25	CHEDDARS	4	5252434005	08/14/2002	08/01/2022	08/02/2018	548,000.00	3,912.08	185.07	720.82	3,006.19	202.68	4,114.76	160,616.41	L	

Status of Portfolio - 504 Program

CDC Report Date: 09/01/2018 As of: 08/31/2018

Number of months delinquent= # Over nine months delinquent= * L=Late Fee Only D=Deferred C=Catch Up Period P=Auto Paydown A=Five Year Break

CDC: 06-284 HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION

No	STATEMENT NAME	PGM	LOAN NO.	ISSUE DATE	MAT. DATE	LAST PAID	LOAN AMT.	MONTHLY PAYMENT	FEES/RV	INT.	PRIN.	LATE	TOTAL DUE	ACTUAL BALANCE AT AUG 31	STATUS	REF
26	CHERIS FOOD STORE	4	3112996000	06/17/2009	06/01/2029	08/02/2018	379,000.00	2,696.64	196.28	1,047.60	1,452.76	0.00	2,696.64	250,299.40		
27	CHILDRENS LIGHTHOUSE SAGINAW	4	3091556008	01/14/2009	01/01/2029	08/02/2018	712,000.00	5,381.94	373.75	2,266.72	2,741.47	0.00	5,381.94	469,080.80		
28	CHINA HARBOR	4	3599326010	09/16/2009	09/01/2029	08/02/2018	636,000.00	4,252.25	315.82	1,480.75	2,455.68	0.00	4,252.25	416,623.27		
29	CIGAR FROGS	4	5283135008	09/11/2013	09/01/2033	08/02/2018	375,000.00	2,726.64	519.53	938.76	1,268.35	0.00	2,726.64	306,257.40	A	
30	COLOR INTERIORS	4	5159345004	08/14/2013	08/01/2033	08/02/2018	441,000.00	2,982.35	492.23	951.23	1,538.89	0.00	2,982.35	355,295.71	A	
31	COMFORT INN & SUITES	4	3658336003	04/15/2009	04/01/2029	08/02/2018	1,157,000.00	7,806.09	575.78	2,692.97	4,537.34	0.00	7,806.09	738,454.41		
32	COMFORT INN & SUITES WINNIE	4	2712106001	06/17/2009	06/01/2029	08/07/2018	1,146,000.00	8,151.54	591.08	3,167.67	4,392.79	407.58	8,559.12	756,841.40	L	
33	COMFORT SUITES	4	9708774010	05/17/2006	05/01/2026	08/02/2018	822,000.00	6,253.54	403.57	2,156.95	3,693.02	0.00	6,253.54	435,009.74		
34	COMPLETE HEALTHCARE SERVICES	4	2566266004	10/13/2010	10/01/2030	08/02/2018	1,127,000.00	6,897.14	561.67	2,021.10	4,314.37	344.86	7,242.00	767,004.53	L	
35	COUNTRY INN & SUITES	4	3451886007	10/13/2010	10/01/2030	08/02/2018	1,479,000.00	9,033.50	719.25	2,652.35	5,661.90	0.00	9,033.50	1,006,565.85		
36	CRATEWORKS INCORPORATED	4	2394566003	10/15/2008	10/01/2028	07/31/2018	829,000.00	6,321.67	1,068.08	7,509.76	25,688.25	2,212.56	36,478.65	557,210.13	5A	
37	CREACOM, INC.	4	3785385003	03/16/2011	03/01/2031	08/02/2018	561,000.00	3,866.41	427.17	1,398.19	2,041.05	0.00	3,866.41	403,924.89		
38	CRESTMONT WASHATERIA & DBA	4	6151574007	03/15/2006	03/01/2026	08/02/2018	400,000.00	3,022.66	243.75	966.28	1,812.63	0.00	3,022.66	205,313.37		
39	D & H HOLDINGS, LP & WE CREATE	4	9054684007	10/11/2006	10/01/2026	08/02/2018	438,000.00	3,228.56	233.54	1,073.30	1,921.72	0.00	3,228.56	236,507.46		
40	D & S MACHINE WORKS, INC.	4	3594296004	02/11/2009	02/01/2029	08/02/2018	328,000.00	2,295.84	164.66	846.50	1,284.68	0.00	2,295.84	210,296.52		
41	DAWSON SAFE & LOCK SERVICES, I	4	4079934003	09/11/2002	09/01/2022	08/02/2018	148,000.00	1,023.70	51.44	177.97	794.29	0.00	1,023.70	43,044.05		
42	DDS EXPRESS MART	4	7345034001	03/16/2005	03/01/2025	08/02/2018	291,000.00	2,088.55	168.49	539.62	1,380.44	0.00	2,088.55	128,931.50		
43	DENNY'S 8683	4	4476235005	06/15/2011	06/01/2031	08/02/2018	989,000.00	6,832.99	988.58	2,220.08	3,624.33	0.00	6,832.99	714,422.10		
44	DENNY'S BAYTOWN	4	7312474008	08/17/2005	08/01/2025	08/02/2018	326,000.00	2,369.54	189.85	662.15	1,517.54	0.00	2,369.54	153,279.05		
45	DISCOVERY PLAYHOUSE LEARNING	4	5581094000	03/17/2004	03/01/2024	08/02/2018	234,000.00	1,600.10	134.35	319.16	1,146.59	0.00	1,600.10	86,916.57		
46	DOM CARLOS MEXICAN RESTAURANT	4	3084206010	12/17/2008	12/01/2028	08/02/2018	772,000.00	6,058.98	408.33	2,699.45	2,951.20	0.00	6,058.98	513,972.37		
47	EAGLEINN & SUITES	4	8123674004	07/11/2007	07/01/2027	08/02/2018	341,000.00	2,604.10	184.80	987.76	1,431.54	0.00	2,604.10	200,926.28		
48	EDWARD JAMES, INC. DBA DOGS DA	4	8941404006	08/15/2007	08/01/2027	08/02/2018	426,000.00	3,269.47	258.81	1,231.55	1,779.11	0.00	3,269.47	252,228.01		
49	EKDANT, LLC DBA DELUXE INN & S	4	7462015001	06/14/2017	06/01/2037	08/02/2018	492,000.00	3,526.41	835.38	1,119.13	1,571.90	0.00	3,526.41	469,875.02		
50	ENNIS CHIROPRACTIC, PLLC	4	2501206007	04/11/2007	04/01/2027	08/02/2018	242,000.00	1,743.55	95.60	623.16	2,978.30	200.00	3,897.06	138,599.33	2	

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CDC: 06-284 HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION

No	STATEMENT NAME	PGM	LOAN NO.	ISSUE DATE	MAT. DATE	LAST PAID	LOAN AMT.	MONTHLY PAYMENT	FEE/RSV	INT.	PRIN.	LATE	TOTAL DUE	ACTUAL BALANCE AT AUG 31	STATUS	REF
51	EYES CUSTOM JEWELRY & REPAIR	4	3484745000	05/12/2010	05/01/2030	08/02/2018	266,000.00	1,766.23	131.93	632.67	1,001.63	0.00	1,766.23	181,893.22		
52	EXCEL CARPETS, INC.	4	8769524004	11/15/2006	11/01/2026	08/02/2018	357,000.00	2,627.88	190.17	879.39	1,558.32	0.00	2,627.88	194,128.93		
53	EXECUTIVE INN & SUITES	4	2507746006	02/14/2007	02/01/2027	08/02/2018	523,000.00	3,815.54	205.34	1,358.54	2,251.66	0.00	3,815.54	292,845.68		
54	FREET MOTEL	4	3043816009	04/16/2008	04/01/2028	08/02/2018	175,000.00	1,264.43	68.66	468.59	707.18	0.00	1,264.43	107,657.92		
55	FROSTWOOD CHIROPRACTIC OF KATY	4	3624845009	03/17/2010	03/01/2030	08/02/2018	153,000.00	1,022.00	75.96	367.62	578.42	0.00	1,022.00	103,679.49		
56	G & L INSTALLATIONS INC	4	32986416005	05/13/2009	05/01/2029	08/02/2018	681,000.00	4,718.75	354.71	1,670.53	2,693.51	0.00	4,718.75	445,747.98		
57	G&L PROPERTIES LLC	4	4828925005	10/17/2012	10/01/2032	08/02/2018	156,000.00	955.89	151.22	216.89	587.78	0.00	955.89	117,286.67		
58	G.WHITE SALON	4	7508144005	11/15/2006	11/01/2026	08/02/2018	282,000.00	2,165.55	171.68	719.27	1,274.60	0.00	2,165.55	158,783.11		
59	GCH REALTY LP, A TEXAS LTD.	4	9734604009	06/14/2006	06/01/2026	08/02/2018	212,000.00	1,607.33	103.96	555.26	948.11	0.00	1,607.33	112,944.92		
60	GEORGETOWN FAMILY & GERIATRIC	4	3359856008	08/16/2009	09/01/2029	08/02/2018	146,000.00	976.15	72.50	339.92	583.73	0.00	976.15	95,839.36		
61	GIANT CHINA BUFFET	4	3250966000	11/12/2009	11/01/2029	08/02/2018	1,425,000.00	9,466.89	726.95	3,258.20	5,481.74	0.00	9,466.89	941,303.65		
62	GLORIA'S MIDTOWN HOUSTON, INC.	4	5571165000	06/12/2013	06/01/2033	08/02/2018	1,819,000.00	11,626.32	2,000.91	2,972.94	6,652.47	0.00	11,626.32	1,430,998.60		
63	GLORIA'S RESTAURANT #1	4	3964985001	10/12/2011	10/01/2031	08/02/2018	1,042,000.00	6,447.16	773.08	1,751.68	3,922.40	0.00	6,447.16	748,751.14		
64	GRAND LAKE WAREHOUSING TEXAS,	4	7675565006	06/15/2016	06/01/2036	08/02/2018	515,000.00	3,531.21	674.43	867.62	1,789.16	0.00	3,531.21	489,179.83		
65	GREAT WALL RESTAURANT.	4	2795726004	09/12/2007	09/01/2027	08/02/2018	1,042,000.00	7,646.69	410.28	2,894.72	4,341.69	0.00	7,646.69	616,189.27		
66	GREENS MART INC.	4	9027044008	01/11/2006	01/01/2026	08/02/2018	294,000.00	2,139.69	155.84	642.10	1,341.75	0.00	2,139.69	145,811.36		
67	HASTINGS LAW FIRM P.C.	4	3821185000	08/11/2010	08/01/2030	08/02/2018	349,000.00	2,298.88	262.98	709.70	1,326.20	0.00	2,298.88	238,078.26		
68	HENDERSON S ATA BLACK BELT ACA	4	9087344006	03/14/2007	03/01/2027	08/02/2018	228,000.00	1,661.29	120.89	562.43	977.97	0.00	1,661.29	127,229.76		
69	HENDRIX SPECIALTY FABRICATIONS	4	3215066006	12/17/2008	12/01/2028	07/03/2018	508,000.00	3,986.99	537.38	3,572.93	3,873.82	199.35	8,183.48	340,141.26		2
70	HL-TEK WASHATERIA	4	9284904007	03/15/2006	03/01/2026	08/02/2018	523,000.00	3,887.55	254.12	1,263.41	2,370.02	0.00	3,887.55	268,447.35		
71	HITEK MAXEY GAS & FOOD MART	4	3157296006	12/16/2009	12/01/2029	08/02/2018	1,134,000.00	7,505.69	577.80	2,577.91	4,349.98	0.00	7,505.69	752,059.00		
72	HOLIDAY INN EXPRESS & SUITES	4	2919656000	06/17/2009	06/01/2029	08/02/2018	1,328,000.00	9,464.09	702.93	3,670.74	5,090.42	0.00	9,464.09	877,038.11		
73	HSE MEDICAL ASSOCIATES, LLP	4	2456536001	12/17/2008	12/01/2028	08/02/2018	857,000.00	6,724.27	451.47	2,996.67	3,276.13	0.00	6,724.27	570,562.82		
74	HUSELTON AND OSINA DENTISTRY	4	3472735000	06/16/2010	06/01/2030	08/02/2018	478,000.00	3,113.08	236.93	1,071.08	1,806.07	0.00	3,113.08	326,093.25		
75	IESMART SYSTEMS, LLC	4	9389934001	06/14/2006	06/01/2026	08/02/2018	280,000.00	2,122.88	137.30	733.37	1,252.21	0.00	2,122.88	149,173.21		

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76	IMPORT WORLD	4	8257744008	11/17/2004	11/01/2024	08/02/2018	443,000.00	3,168.54	263.10	772.01	2,133.43	162.93	3,331.47	187,085.45	L
77	ITD PRECISION	4	4640034000	02/12/2003	02/01/2023	08/02/2018	480,000.00	3,305.88	166.31	621.41	2,518.16	0.00	3,305.88	151,834.97	
78	ITD PRECISION	4	4689205008	05/15/2013	05/01/2033	08/02/2018	439,000.00	2,665.95	424.56	598.38	1,643.01	0.00	2,665.95	340,732.98	
79	ITD PRECISION	4	7206984004	01/12/2005	01/01/2025	08/02/2018	408,000.00	2,908.70	235.55	723.84	1,949.31	0.00	2,908.70	176,139.89	
80	ITD PRECISION	4	9824584003	03/12/2008	03/01/2028	08/02/2018	2,355,000.00	17,402.59	1,141.51	6,711.25	9,549.83	0.00	17,402.59	1,446,710.25	
81	ITD PRECISION AND WIT4, LLC	4	2653636006	03/11/2009	03/01/2029	08/02/2018	844,000.00	5,870.93	433.42	2,137.99	3,299.52	0.00	5,870.93	542,476.98	
82	J.S. HOSPITALITY CORPORATION	4	8820544006	05/17/2006	05/01/2026	08/02/2018	713,000.00	5,480.94	386.70	1,870.93	3,203.31	0.00	5,460.94	377,326.83	
83	JACINTO MEDICAL GROUP, P.A.	4	3484825000	08/17/2011	08/01/2031	08/02/2018	392,000.00	2,430.16	191.25	788.56	1,450.35	0.00	2,430.16	282,933.60	
84	JEL, INC. & EDWARD JAMES, INC.	4	3056316000	07/15/2009	07/01/2029	08/02/2018	512,000.00	3,458.96	262.13	1,210.26	1,986.57	0.00	3,458.96	332,644.08	
85	JL UNITED REALTY, LLC	4	6171855001	09/11/2013	09/01/2033	08/02/2018	209,000.00	1,519.65	289.55	523.20	706.90	0.00	1,519.65	170,687.18	A
86	KFL INVESTMENTS, INC	4	3352676008	04/14/2010	04/01/2030	08/02/2018	1,743,000.00	11,834.12	893.47	4,406.82	6,533.83	0.00	11,834.12	1,194,636.74	
87	KIDS R KIDS # 47 TX	4	2711946004	04/16/2008	04/01/2028	08/02/2018	950,000.00	6,862.57	371.26	2,652.38	3,838.93	0.00	6,862.57	584,430.02	
88	LAPORTE TRAVEL PLAZA	4	9012054008	04/16/2008	04/01/2028	08/02/2018	1,128,000.00	8,308.59	601.01	3,149.35	4,558.23	0.00	8,308.59	693,934.22	
89	LISA MOTEL	4	3034236010	03/12/2008	03/01/2028	08/02/2018	567,000.00	4,138.67	223.58	1,615.83	2,299.26	0.00	4,138.67	348,316.09	
90	LYNDON'S PITT BAR-B-Q	4	2776876008	07/16/2008	07/01/2028	08/02/2018	583,000.00	4,381.68	231.96	1,846.17	2,303.55	0.00	4,381.68	372,336.67	A
91	MACCO AUTO PAINTING & BODYWORK	4	5681884009	11/12/2003	11/01/2023	08/02/2018	251,000.00	1,808.99	147.78	386.33	1,274.88	0.00	1,808.99	91,757.30	A
92	MAGNOLIA INNS & SUITES	4	4393364007	09/11/2002	09/01/2022	08/02/2018	358,000.00	2,476.25	124.44	430.51	1,921.30	0.00	2,476.25	104,122.29	
93	MCH MODCO, LLC	4	3619405001	11/17/2010	11/01/2030	08/02/2018	746,000.00	4,609.17	363.67	1,411.53	2,833.97	0.00	4,609.17	512,666.57	
94	MICHAEL F. BARDWILL, M.D. P.A.	4	3258186007	08/12/2009	08/01/2029	08/02/2018	650,000.00	4,446.49	333.83	1,608.16	2,504.50	0.00	4,446.49	427,191.54	
95	MIDWAY CAR WASH & DETAIL	4	3854795002	04/14/2010	04/01/2030	08/02/2018	539,000.00	3,795.84	412.59	1,362.75	2,020.50	0.00	3,795.84	369,425.45	
96	MOLEN & ASSOCIATES, LLC	4	2781666009	12/17/2008	12/01/2028	08/02/2018	576,000.00	4,520.10	304.07	2,014.10	2,202.09	0.00	4,520.26	383,482.02	
97	MONIRA HAMID-KUNDI, M.D. P.A.	4	3495285010	08/11/2010	08/01/2030	08/02/2018	275,000.00	1,739.08	134.86	559.22	1,045.00	0.00	1,739.08	187,597.43	
98	MORRELL MASONRY SUPPLY, INC	4	3572876000	12/16/2009	12/01/2029	08/02/2018	427,000.00	2,820.09	211.44	970.69	1,637.96	0.00	2,820.09	283,182.71	
99	MR. MECHANIC, LLC	4	2619316000	10/17/2007	10/01/2027	08/02/2018	243,000.00	1,783.32	95.64	680.80	1,006.88	0.00	1,783.32	144,652.59	
100	N.W.HOUSTON FAMILY PRACTICE,P.	4	3368266001	07/14/2010	07/01/2030	08/02/2018	1,035,000.00	6,712.43	524.97	2,278.71	3,908.75	0.00	6,712.43	708,314.27	

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101	NEAL & COMPANY AND NEAL & LOZA	4	3449266010	03/11/2009	03/01/2029	08/02/2018	819,000.00	5,686.84	410.40	2,074.66	3,201.78	0.00	5,686.84	526,408.57		
102	OKDALE PRIVATE SCHOOL, LLC	4	3938075006	12/15/2010	12/01/2030	08/02/2018	809,000.00	5,413.64	611.75	1,786.92	3,014.97	0.00	5,413.64	567,336.07		
103	PANG BROS., INC.	4	9176414005	09/17/2008	09/01/2028	08/02/2018	1,478,000.00	11,241.55	951.35	4,477.73	5,812.47	0.00	11,241.55	946,331.75	A	
104	PEARLE VISION	4	1754026005	04/16/2008	04/01/2028	08/02/2018	198,000.00	1,448.43	95.50	552.81	800.12	0.00	1,448.43	121,808.96		
105	PEGGY'S CHILD CARE INCORPORATED	4	4576754009	01/15/2003	01/01/2023	08/02/2018	320,000.00	2,214.06	111.23	413.81	1,689.02	0.00	2,214.06	99,877.03		
106	PEM-TECH INC	4	2810706008	05/14/2008	05/01/2028	08/02/2018	548,000.00	3,997.93	215.16	1,581.71	2,201.06	0.00	3,997.93	340,953.64		
107	PETER C GAMBARTOGLIO D.D.S.,	4	8944184007	11/16/2005	11/01/2025	08/02/2018	459,000.00	3,378.20	244.46	1,078.85	2,114.89	0.00	3,378.20	224,912.66		
108	PLATEAU TRUCK STOP	4	3175406006	05/14/2008	05/01/2028	08/02/2018	652,000.00	4,757.70	257.03	1,881.89	2,618.78	0.00	4,757.70	405,659.83		
109	POLLO CAMPERO	4	3521876000	06/16/2010	06/01/2030	08/02/2018	562,000.00	3,660.16	277.40	1,259.30	2,123.46	0.00	3,660.16	383,398.11		
110	PORTAGAS, INC.	4	3687915008	10/13/2010	10/01/2030	08/02/2018	899,000.00	5,725.51	671.75	1,612.21	3,441.55	0.00	5,725.51	611,834.13		
111	PREMIER AUTO SERVICE	4	3761124005	05/16/2001	05/01/2021	08/02/2018	234,000.00	1,827.25	97.78	279.36	1,450.11	0.00	1,827.25	52,190.77		
112	PSYCHIATRIC SERVICES OF HOUSTON	4	2522806009	06/13/2007	06/01/2027	08/02/2018	610,000.00	4,529.34	241.45	1,713.28	2,574.61	0.00	4,529.34	355,171.91		
113	Q ENVIRONMENTAL INC	4	4231754003	11/17/2004	11/01/2024	08/02/2018	183,000.00	1,313.34	113.13	324.94	2,340.65	100.00	2,878.72	78,743.25	2	
114	R.L. HART CONSTRUCTION, INC.	4	2840796003	06/11/2008	06/01/2028	08/02/2018	267,000.00	1,978.42	105.60	808.25	1,064.57	0.00	1,978.42	168,437.38		
115	RAMADA INN #24633	4	3495006003	04/13/2011	04/01/2031	08/02/2018	1,359,000.00	8,978.40	673.18	3,368.23	4,936.99	0.00	8,978.40	982,641.67		
116	RICHMONT DENTAL CARE PLLC	4	3285056009	01/13/2010	01/01/2030	08/02/2018	200,000.00	1,360.26	102.57	499.99	757.70	0.00	1,360.26	134,925.90		
117	ROBERT S. WARWICK D.D.S. P.C.	4	2797456010	08/13/2008	08/01/2028	08/02/2018	400,000.00	3,043.27	160.07	1,314.32	1,568.88	0.00	3,043.27	258,518.87	A	
118	ROSEGARDEN SUITES	4	6862974001	05/17/2006	05/01/2026	08/02/2018	317,000.00	2,445.76	189.75	831.82	1,424.19	0.00	2,445.76	167,759.35		
119	SAFETY RX SERVICES & SUPPLY	4	3239256009	03/16/2011	03/01/2031	08/02/2018	478,000.00	3,174.14	243.73	1,191.32	1,739.09	0.00	3,174.14	344,164.24		
120	SAINT ARNOLD BREWING COMPANY	4	3262446005	09/15/2010	09/01/2030	08/02/2018	2,359,000.00	14,561.82	1,182.60	4,355.10	9,024.12	0.00	14,561.82	1,601,412.81		
121	SCOTT TATE PHOTOGRAPHY INC.	4	4058194007	10/17/2001	10/01/2021	08/02/2018	98,000.00	727.05	35.80	116.44	574.81	0.00	727.05	23,928.93		
122	SCOTTISH INN & SUITES	4	6045344004	07/14/2004	07/01/2024	08/02/2018	480,000.00	3,520.69	288.51	863.44	2,368.74	0.00	3,520.69	196,817.98		
123	SCREAM WORLD	4	4513294005	06/11/2003	06/01/2023	08/02/2018	219,000.00	1,413.40	72.40	242.46	1,098.54	0.00	1,413.40	70,391.49		
124	SEALY SHELL	4	8006494010	06/15/2005	06/01/2025	08/02/2018	409,000.00	2,825.07	211.51	708.83	1,904.73	0.00	2,825.07	183,367.20		
125	SLATER GYM, LLC	4	3748675008	09/15/2010	09/01/2030	08/02/2018	591,000.00	3,794.33	442.43	1,091.08	2,260.82	0.00	3,794.33	401,201.19		

Status of Portfolio - 504 Program

CDC Report Date: 09/01/2018 As of: 08/31/2018

Number of months delinquent= # Over nine months delinquent= * L=Late Fee Only D=Deferred C=Catch Up Period P=Auto Paydown A=Five Year Break

CDC: 06-284 HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION

No	STATEMENT NAME	PGM	LOAN NO.	ISSUE DATE	MAT. DATE	LAST PAID	LOAN AMT.	MONTHLY PAYMENT	FEE/RSV	INT.	PRIN.	LATE	TOTAL DUE	ACTUAL BALANCE AT AUG 31	STATUS	REF
126	SLEEP INN	4	7238745003	09/13/2017	09/01/2037	08/02/2018	1,564,000.00	10,550.38	2,166.79	3,310.36	5,073.23	0.00	10,550.38	1,507,552.04		
127	SUPER 8 MOTEL	4	2790666000	08/15/2007	08/01/2027	08/02/2018	826,000.00	6,165.22	327.65	2,387.94	3,449.63	0.00	6,165.22	489,061.93		
128	SUPER 8- EAST BELTWAY 8	4	3411046006	01/13/2010	01/01/2030	08/02/2018	646,000.00	4,393.66	331.31	1,614.96	2,447.39	0.00	4,393.66	435,811.65		
129	SUPEREXPRESS	4	2432466010	04/16/2008	04/01/2028	08/02/2018	415,000.00	3,035.85	200.17	1,158.67	1,677.01	0.00	3,035.85	255,303.59		
130	TDHSERVICES, INC.	4	3720385002	02/17/2010	02/01/2030	08/02/2018	118,000.00	816.39	89.92	278.14	448.33	0.00	816.39	79,385.04		
131	TEXAS INSTITUTE OF CHEST & SLE	4	3685285000	02/16/2011	02/01/2031	08/02/2018	655,000.00	4,561.01	499.96	1,681.94	2,379.11	0.00	4,561.01	470,990.99		
132	TEXAS INTERNATIONAL MOTORS	4	5170694009	09/15/2004	09/01/2024	08/02/2018	455,000.00	3,284.18	271.52	797.15	2,215.51	0.00	3,284.18	188,944.78		
133	TEXAS ONE VOLLEYBALL	4	5478815000	11/13/2013	11/01/2033	08/02/2018	906,000.00	6,473.66	1,255.19	2,125.79	3,092.68	0.00	6,473.66	742,528.66		A
134	THE GRAT RUG COMPANY	4	2928306001	01/16/2008	01/01/2028	08/02/2018	687,000.00	4,883.59	266.52	1,786.34	2,820.73	0.00	4,883.59	411,036.20		
135	THE HASTON LAW FIRM, P.C.	4	3862295005	12/15/2010	12/01/2030	08/02/2018	312,000.00	2,087.82	235.92	689.14	1,162.76	0.00	2,087.82	218,798.73		
136	THE KIDS ARENA ACADEMY	4	3213818002	02/17/2010	02/01/2030	08/02/2018	446,000.00	2,975.35	229.53	1,051.28	1,694.54	0.00	2,975.35	300,049.52		
137	THE NEW TREASURES LEARNING CENTER	4	3397855000	05/11/2011	05/01/2031	08/02/2018	364,000.00	2,354.28	179.45	842.64	1,332.19	0.00	2,354.28	262,622.31		
138	TODD STREET PROPERTIES, LTD.	4	1776984009	09/16/1998	09/01/2018	08/02/2018	540,000.00	4,131.49	247.33	0.67	132.13	0.00	380.13	132.13		A
139	TODO SUPERMARKET	4	4721834006	01/15/2003	01/01/2023	08/02/2018	179,000.00	1,238.49	62.22	231.48	944.79	0.00	1,238.49	55,868.97		
140	TONG XIN CHINESE SCHOOL	4	3686146002	11/12/2009	11/01/2029	08/02/2018	537,000.00	3,559.81	266.23	1,227.83	2,065.75	0.00	3,559.81	354,722.50		
141	TORNADOS VOLLEYBALL CAMPS, INC.	4	7259084009	08/17/2005	08/01/2025	08/02/2018	1,040,000.00	7,559.27	605.65	2,112.38	4,841.24	0.00	7,559.27	488,989.10		
142	TRIUMART EXPRESS	4	5593924008	03/17/2004	03/01/2024	08/02/2018	516,000.00	3,528.42	296.26	703.80	2,528.36	0.00	3,528.42	191,662.65		
143	TRISON INTERNATIONAL INC.	4	3699446008	05/12/2010	05/01/2030	08/02/2018	271,000.00	1,799.43	134.41	644.56	1,020.46	0.00	1,799.43	185,312.27		
144	VALSOURCE INTERNATIONAL, LLC	4	2705666008	07/16/2008	07/01/2028	08/02/2018	1,046,000.00	7,861.47	416.17	3,312.35	4,132.95	0.00	7,861.47	668,035.57		A
145	VELVET MELVIN PUB	4	9067894010	11/16/2005	11/01/2025	08/02/2018	92,000.00	677.11	49.00	204.21	423.90	0.00	677.11	45,080.22		
146	VIP BUBBLES LLC	4	3272366009	10/15/2008	10/01/2028	08/02/2018	396,000.00	2,972.19	207.53	1,215.10	1,549.56	0.00	2,972.19	255,448.70		A
147	VOSS ROAD ANIMAL CLINIC	4	2690796007	03/11/2009	03/01/2029	08/02/2018	327,000.00	2,274.64	167.93	828.34	1,278.37	0.00	2,274.64	210,177.31		
148	WINDS OF CHANGE COSMETIC SUGER	4	3464646004	01/12/2011	01/01/2031	08/02/2018	320,000.00	2,086.68	158.05	760.01	5,161.38	312.99	6,392.43	230,804.48		2
149	WOI	4	5805494002	05/14/2003	05/01/2023	08/02/2018	295,000.00	1,993.60	97.00	379.49	1,517.11	103.51	2,097.11	96,698.42		L
150	WOW FOOD CONCEPTS, L.L.C./D/B/	4	1479664000	02/17/1999	02/01/2019	08/02/2018	483,000.00	3,705.87	246.22	85.51	3,374.14	0.00	3,705.87	17,084.79		

Status of Portfolio - 504 Program

CDC Report Date: 09/01/2018 As of: 08/31/2018

Number of months delinquent= # Over nine months delinquent= * L=Late Fee Only D=Deferred C=Catch Up Period P=Auto Paydown A=Five Year Break

CDC: 06-284 HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION

No	STATEMENT NAME	PGM	LOAN NO.	ISSUE DATE	MAT. DATE	LAST PAID	LOAN AMT.	MONTHLY PAYMENT	FEE/RSV	INT.	PRIN.	LATE	TOTAL DUE	ACTUAL BALANCE AT AUG 31	STATUS	REF
151	WSISERVICES, INC.	4	7760504008	02/15/2006	02/01/2026	08/02/2018	576,000.00	4,268.37	338.51	1,311.41	2,618.45	0.00	4,268.37	290,037.99		
152	WSISERVICES, INC.	4	3011806001	08/12/2009	08/01/2029	08/02/2018	1,291,000.00	8,831.40	663.03	3,194.05	4,974.32	0.00	8,831.40	848,468.89		
153	YELLOW ROSE TRAVEL PLAZA	4	3168566010	07/11/2012	07/01/2032	08/02/2018	1,500,000.00	8,625.67	739.33	2,254.63	5,631.71	0.00	8,625.67	1,117,087.36		

CDC TOTAL LOAN(S)	REFI TOTAL LOAN(S)	TOTAL LOAN AMOUNT	MONTHLY PAYMENT	FEE/RSV	INT.	PRIN.	LATE	TOTAL DUE	ACTUAL BALANCE
153	0	91,399,000.00	636,215.41	55,971.84	220,394.56	459,547.28	4,957.47	740,871.15	58,154,243.56

EXHIBIT B.

Reference Name	SBA Loan #	SBA Office	SBA Approval Date	Funded Date	Primary Loan Amount	Primary Gross Debenture	Primary Loan Balance
Ennis Chiropractic, PLLC	250-120-6007	SBA Office - Houston District Office	10/30/2006	04/11/2007	229,800.00	242,000.00	138,599.33
Chalet Chrystable Event Center	306-328-6002	SBA Office - Houston District Office	11/13/2007	01/16/2008	483,152.00	497,000.00	301,380.15
Anna M. Munne, DDS, PA	352-013-6010	SBA Office - Houston District Office	10/30/2008	05/11/2011	1,301,627.76	1,333,000.00	970,867.47
Richmont Dental Care, PLLC	328-505-6009	SBA Office - Houston District Office	06/18/2008	01/13/2010	192,500.00	200,000.00	134,925.90
Winds of Change Cosmetic Surgery Specialists	345-464-5004	SBA Office - Houston District Office	06/08/2009	01/12/2011	311,302.00	320,000.00	230,804.48
Trademarks Promotional Products, LP	177-698-4009	SBA Office - Houston District Office	01/08/1998	09/01/1998	520,000.00	540,000.00	132.13
Cheddars	147-966-4000	SBA Office - Houston District Office	08/08/1997	02/17/1999	469,770.00	483,000.00	17,084.79
Premier Auto Service	376-112-4005	SBA Office - Houston District Office	06/01/2000	05/16/2001	224,570.00	234,000.00	52,190.77
Scott Tate Photography, Inc.	405-819-4007	SBA Office - Houston District Office	11/13/2000	10/18/2001	92,000.00	98,000.00	23,928.93
Cheddar's	525-243-4005	SBA Office - Houston District Office	03/04/2002	08/14/2002	530,000.00	548,000.00	160,616.41
Dawson Safe & Lock Services, Inc.	407-993-4003	SBA Office - Houston District Office	11/20/2000	09/11/2002	141,000.00	148,000.00	43,044.05
Magolia Inns & Suites	439-336-4007	SBA Office - Houston District Office	03/03/2001	09/11/2002	345,000.00	358,000.00	104,122.29
Peggy's Childcare Incorporated	457-675-4009	SBA Office - Houston District Office	06/18/2001	01/15/2003	308,700.00	320,000.00	99,877.03
Todo Supermarket	472-183-4006	SBA Office - Houston District Office	07/25/2001	01/15/2003	171,000.00	179,000.00	55,868.97
ITD Precision	464-003-4000	SBA Office - Houston District Office	07/13/2001	02/12/2003	464,000.00	480,000.00	151,834.97
WOL	580-549-4002	SBA Office - Houston District Office	10/24/2002	05/14/2003	284,000.00	295,000.00	96,698.42
Scream World	451-329-4005	SBA Office - Houston District Office	05/15/2001	06/11/2003	210,000.00	219,000.00	70,391.49
MAACO Auto Painting and Bodyworks	568-188-4009	SBA Office - Houston District Office	09/11/2002	11/12/2003	241,028.00	251,000.00	91,757.30
Discovery Playhouse Learning Center, Inc.	558-109-4000	SBA Office - Houston District Office	08/01/2002	03/17/2004	225,000.00	234,000.00	86,916.57
Tri-Mart Express	559-392-4008	SBA Office - Houston District Office	08/05/2002	03/17/2004	499,398.00	516,000.00	191,662.65
Scottish Inn & Suites	604-534-4004	SBA Office - Houston District Office	01/23/2003	07/14/2004	465,000.00	480,000.00	196,817.98
Texas International Motors	517-069-4009	SBA Office - Houston District Office	01/22/2002	09/15/2004	440,000.00	455,000.00	188,944.78
Café Piquet, Inc.	724-247-4001	SBA Office - Houston District Office	03/04/2004	10/13/2004	244,000.00	254,000.00	105,985.15
Import World	625-774-4008	SBA Office - Houston District Office	04/18/2003	11/17/2004	427,914.00	442,000.00	187,085.45
Q Environmental, Inc.	423-175-4003	SBA Office - Houston District Office	01/22/2001	11/17/2004	173,957.00	183,000.00	78,743.25
ITD Precision	720-698-4004	SBA Office - Houston District Office	02/23/2004	01/12/2005	402,350.00	407,000.00	176,139.89
DD's Express Mart	734-503-4001	SBA Office - Houston District Office	04/09/2004	03/16/2005	280,950.00	291,000.00	128,931.50
Best Western Heritage Inn	860-176-4002	SBA Office - Houston District Office	02/10/2005	06/15/2005	690,000.00	711,000.00	318,764.45
Sealy Shell	800-649-4010	SBA Office - Houston District Office	10/27/2004	06/15/2005	395,196.00	409,000.00	183,367.20
Amaya's Collision Center, Inc.	852-464-4007	SBA Office - Houston District Office	01/25/2005	08/17/2005	88,000.00	93,000.00	44,404.19
Tornados Volleyball Camps, Inc.	725-908-4009	SBA Office - Houston District Office	03/11/2004	08/17/2005	1,009,172.00	1,040,000.00	488,989.10
Denny's Baytown	731-247-4008	SBA Office - Houston District Office	03/30/2004	08/17/2005	314,350.00	326,000.00	153,279.05
Peter C. Gambertoglio, DDS, PA	894-418-4007	SBA Office - Houston District Office	06/22/2005	11/16/2005	440,000.00	459,000.00	224,912.66
Veter Melvin Pub	906-789-4010	SBA Office - Houston District Office	08/26/2005	11/16/2005	85,300.00	92,000.00	45,080.22
Greens Mart, Inc.	902-704-4008	SBA Office - Houston District Office	08/05/2005	01/11/2006	283,167.00	294,000.00	145,811.36
WSI Services, Inc.	776-050-4008	SBA Office - Houston District Office	09/02/2004	02/17/2006	557,742.00	576,000.00	290,037.99
Crestmont Washateria and Crestmont Park Super	615-157-4007	SBA Office - Houston District Office	03/06/2003	03/15/2006	387,081.00	400,000.00	205,313.37
Hi-Tek Washateria	928-490-4007	SBA Office - Houston District Office	11/17/2005	03/15/2006	504,525.00	523,000.00	288,447.35
Comfort Suites	970-877-4010	SBA Office - Houston District Office	01/18/2006	05/17/2006	795,719.97	822,000.00	435,009.74
Days Inn & Suites Webster	882-054-4006	SBA Office - Houston District Office	04/27/2005	05/17/2006	691,000.00	713,000.00	377,326.83
Rosegarden Suites	685-297-4001	SBA Office - Houston District Office	10/28/2003	05/17/2006	305,693.00	317,000.00	167,759.35
Golf Cars of Houston, LP	973-460-4009	SBA Office - Houston District Office	01/20/2006	06/14/2006	201,950.00	212,000.00	112,944.92
IESmart Systems, LLC	938-993-4001	SBA Office - Houston District Office	12/06/2005	06/14/2006	267,243.00	280,000.00	149,173.21
Better Beginnings Children's Center	747-162-4002	SBA Office - Houston District Office	05/26/2004	08/16/2006	412,712.50	427,000.00	229,992.35
Your Perfect Smile	905-468-4007	SBA Office - Houston District Office	08/19/2005	10/11/2006	423,014.00	438,000.00	236,507.46
Access Physical Therapy	155-122-6006	SBA Office - Houston District Office	03/30/2006	11/15/2006	270,415.00	281,000.00	152,801.25
Excel Carpets, Inc.	876-952-4004	SBA Office - Houston District Office	04/06/2005	11/15/2006	347,564.00	357,000.00	194,128.93
G. White Salon	750-814-4005	SBA Office - Houston District Office	06/08/2004	11/15/2006	280,714.00	292,000.00	158,783.11
Baycenter Family Physician, PA	902-250-4005	SBA Office - Houston District Office	08/03/2005	01/17/2007	218,195.80	229,000.00	126,255.18

Reference Name	SBA Loan #	SBA Office	SBA Approval Date	Funded Date	Primary Loan Amount	Primary Gross Debenture	Primary Loan Balance
Asia Auto Care	741-689-4010	SBA Office - Houston District Office	05/06/2004	02/14/2007	206,378.00	215,000.00	120,365.16
Executive Inn & Suites	250-774-6006	SBA Office - Houston District Office	11/02/2006	02/14/2007	505,900.00	523,000.00	292,845.68
Henderson's ATA Blackbelt Academy, LLC	908-734-4006	SBA Office - Houston District Office	09/07/2005	03/14/2007	218,680.00	227,229.00	127,229.76
dba A to Z Food & Deli (Texaco)	285-380-6009	SBA Office - Houston District Office	01/31/2007	04/11/2007	700,000.00	722,000.00	407,706.85
Psychiatric Services of Houston and Associates and Eaglelin & Suites	252-280-6009	SBA Office - Houston District Office	11/09/2006	06/13/2007	591,000.00	610,000.00	355,171.91
Dogs Day Out Bed & Biscuit	812-367-4004	SBA Office - Houston District Office	11/16/2004	07/11/2007	328,710.00	341,000.00	200,926.28
Super 8 Motel	894-140-4006	SBA Office - Houston District Office	06/21/2005	08/15/2007	411,200.00	426,000.00	252,228.01
Great Wall Restaurant	279-066-6000	SBA Office - Houston District Office	05/09/2007	08/15/2007	801,412.50	826,000.00	489,061.93
Mr. Mechanic, LLC	279-572-6004	SBA Office - Houston District Office	05/14/2007	09/12/2007	1,011,700.00	1,042,000.00	616,189.27
The Great Rug Company	261-931-6000	SBA Office - Houston District Office	01/09/2007	10/17/2007	233,164.00	243,000.00	144,652.59
Pelletizer Knives, Inc.	292-830-6001	SBA Office - Houston District Office	08/03/2007	01/16/2008	666,000.00	687,000.00	411,036.20
Lisa Motel	982-456-4003	SBA Office - Houston District Office	01/31/2006	03/12/2008	2,291,000.00	2,355,000.00	1,446,710.25
Kids R Kids #47 TX	303-423-6010	SBA Office - Houston District Office	10/22/2007	03/12/2008	551,675.00	567,000.00	348,316.09
Pearlie Vision	271-194-6004	SBA Office - Houston District Office	03/13/2007	04/16/2008	922,130.00	950,000.00	584,430.02
Super Express	175-402-6005	SBA Office - Houston District Office	04/13/2006	04/16/2008	189,678.65	198,000.00	121,806.96
Donna C. Rich, MD, PA	243-246-6010	SBA Office - Houston District Office	09/22/2006	04/16/2008	400,583.00	415,000.00	255,303.59
Freer Motel	303-887-6000	SBA Office - Houston District Office	10/25/2007	04/16/2008	274,350.00	284,000.00	174,714.10
La Porte Travel Plaza	304-381-6009	SBA Office - Houston District Office	10/29/2007	04/16/2008	164,360.00	175,000.00	107,657.92
Penn-Tech, Inc.	901-205-4008	SBA Office - Houston District Office	07/28/2005	04/16/2008	1,094,107.00	1,128,000.00	693,934.22
Plateau Truck Stop	281-070-6008	SBA Office - Houston District Office	05/23/2007	05/14/2008	530,620.00	548,000.00	340,953.64
R.L. Hart Construction, Inc.	317-540-6006	SBA Office - Houston District Office	02/26/2008	05/14/2008	634,494.00	652,000.00	405,659.83
Valsource International, LLC	284-079-6003	SBA Office - Houston District Office	06/28/2007	06/11/2008	257,000.00	267,000.00	168,437.38
Lyndon's Pit Bar-B-Q	270-586-6008	SBA Office - Houston District Office	03/08/2007	07/16/2008	1,015,000.00	1,046,000.00	668,035.57
Robert S. Warwick, DDS, PC	277-687-6008	SBA Office - Houston District Office	04/30/2007	07/16/2008	563,123.00	583,000.00	372,336.67
Pang Bros, Inc.	279-745-6010	SBA Office - Houston District Office	05/15/2007	08/13/2008	386,000.00	400,000.00	258,518.87
A & S Engineers, Inc.	917-641-4005	SBA Office - Houston District Office	10/18/2005	09/17/2008	1,433,900.00	1,478,000.00	946,331.75
Crateworks, Incorporated	246-952-6008	SBA Office - Houston District Office	10/12/2006	10/15/2008	616,000.00	636,000.00	410,266.34
VIP Bubbles, LLC	239-456-6003	SBA Office - Houston District Office	09/08/2006	10/15/2008	804,000.00	829,000.00	557,210.13
Business Cards Tomorrow	327-236-6009	SBA Office - Houston District Office	06/04/2008	10/15/2008	384,300.00	396,000.00	255,448.70
Don Carlos Mexican Restaurant	310-982-6000	SBA Office - Houston District Office	12/27/2007	11/12/2008	454,000.00	467,000.00	315,045.76
Herndix Specialty Fabrication, Inc.	308-420-6010	SBA Office - Houston District Office	11/30/2007	12/17/2008	752,000.00	772,000.00	513,972.37
HSE Medical Associates, LLP	321-506-6006	SBA Office - Houston District Office	04/03/2008	12/17/2008	494,000.00	508,000.00	340,141.26
Molten & Associates, LLC	245-653-6001	SBA Office - Houston District Office	10/04/2006	12/17/2008	831,800.00	870,562.82	570,562.82
Children's Lighthouse Saginaw	278-166-6009	SBA Office - Houston District Office	05/03/2007	12/17/2008	558,000.00	576,000.00	383,482.02
D & S Machine Works, Inc.	309-155-6008	SBA Office - Houston District Office	12/07/2007	01/14/2009	693,700.00	712,000.00	469,080.80
ITD Precision and Pelletizer Knives, Inc.	359-429-6004	SBA Office - Houston District Office	12/01/2008	02/11/2009	317,500.00	328,000.00	210,296.52
Neal & Company and Neal & Lozano	265-363-6006	SBA Office - Houston District Office	01/31/2007	03/11/2009	819,013.00	844,000.00	542,476.98
Voss Road Animal Clinic	344-926-6010	SBA Office - Houston District Office	10/02/2008	03/11/2009	798,144.00	817,000.00	526,408.57
Comfort Inn & Suites	269-079-6007	SBA Office - Houston District Office	02/27/2007	03/11/2009	315,162.00	329,000.00	210,177.31
G & L Installations, Inc.	365-833-6003	SBA Office - Houston District Office	01/14/2009	04/15/2009	1,129,427.00	1,157,000.00	738,454.41
Cheer's Food Store	329-641-6005	SBA Office - Houston District Office	06/26/2008	05/13/2009	672,800.00	691,000.00	445,747.98
Holiday Inn Express & Suites	311-299-6000	SBA Office - Houston District Office	12/31/2007	06/17/2009	367,570.00	379,000.00	250,299.40
Comfort Inn & Suites(Winnie)	291-985-6000	SBA Office - Houston District Office	07/29/2007	06/17/2009	1,290,000.00	1,328,000.00	877,038.11
Dog's Day Inn	271-210-6001	SBA Office - Houston District Office	03/14/2007	06/17/2009	1,113,150.00	1,146,000.00	756,841.40
Michael F. Bardwil, MD, PA	305-631-6000	SBA Office - Houston District Office	11/06/2007	07/15/2009	498,050.00	512,000.00	332,644.08
WSI Services Inc.	325-818-6007	SBA Office - Houston District Office	05/20/2008	08/12/2009	633,300.00	650,000.00	427,191.54
Bayou Pines Care Center	301-180-6001	SBA Office - Houston District Office	10/02/2007	08/12/2009	1,260,000.00	1,291,000.00	848,468.89
China Harbor	295-146-6001	SBA Office - Houston District Office	08/20/2007	09/16/2009	1,241,975.00	1,279,000.00	837,831.91
	359-932-6010	SBA Office - Houston District Office	12/03/2008	09/16/2009	618,810.00	636,000.00	416,623.27

Reference Name	SBA Loan #	SBA Office	SBA Approval Date	Funded Date	Primary Loan Amount	Primary Gross Debenture	Primary Loan Balance
Georgetown Family & Geriatric Medicine, PLLC	335-996-5008	SBA Office - Houston District Office	04/01/2009	09/16/2009	141,120.00	146,000.00	95,639.36
Baymont Inn & Suites(Tyler)	277-025-6009	SBA Office - Houston District Office	04/25/2007	10/14/2009	959,000.00	988,000.00	644,851.91
Tong Xin Chinese School	368-614-6002	SBA Office - Houston District Office	02/19/2009	11/12/2009	530,000.00	537,000.00	354,722.50
Giant China Buffet	325-096-6000	SBA Office - Houston District Office	05/12/2008	11/12/2009	1,391,206.00	1,425,000.00	941,303.65
Morrell Masonry Supply, Inc.(San Antonio)	357-287-6000	SBA Office - Houston District Office	11/18/2008	12/16/2009	414,888.00	427,000.00	283,182.71
Hitek Maxey Gas & Food Mart and Hitek Maxey W	315-729-6006	SBA Office - Houston District Office	02/08/2008	12/16/2009	1,106,152.00	1,134,000.00	752,059.00
Super 8 Motel - East Beltway 8	341-104-6008	SBA Office - Houston District Office	09/02/2008	01/13/2010	629,400.00	646,000.00	435,811.65
TDH Services, Inc.	372-038-5002	SBA Office - Houston District Office	02/28/2009	02/17/2010	114,200.00	118,000.00	79,385.04
The Kids Arena Academy	321-381-6002	SBA Office - Houston District Office	04/02/2008	02/17/2010	433,482.00	446,000.00	300,049.52
Asad Abbas, MD, PA	361-888-6010	SBA Office - Houston District Office	12/12/2008	02/17/2010	271,250.00	281,000.00	189,044.25
Frostwood Chiropractic of Katy	362-484-5009	SBA Office - Houston District Office	09/10/2009	03/17/2010	148,800.00	153,000.00	103,679.49
KFL Investments, Inc.	335-267-6008	SBA Office - Houston District Office	07/24/2008	04/14/2010	1,702,287.00	1,743,000.00	1,194,636.74
Midway Car Wash & Detail	385-479-5002	SBA Office - Houston District Office	01/13/2010	04/14/2010	531,617.00	539,000.00	369,425.45
Eve's Custom Jewelry & Repair, Inc.	348-474-5000	SBA Office - Houston District Office	06/25/2009	05/12/2010	261,275.00	266,000.00	181,893.22
Trison International, Inc.	369-944-6008	SBA Office - Houston District Office	03/03/2009	05/12/2010	266,000.00	271,000.00	185,312.27
Huseiton and Osina Dentistry Partnership and Charles I	347-273-5000	SBA Office - Houston District Office	06/18/2009	06/16/2010	471,400.09	478,000.00	326,093.25
Pollo Campero	352-187-6000	SBA Office - Houston District Office	10/30/2008	06/16/2010	546,749.31	562,000.00	383,398.11
Apple Termite & Pest Control, Inc.	405-744-5004	SBA Office - Houston District Office	04/30/2010	07/14/2010	179,800.00	184,000.00	125,922.08
Billang, Ltd. Co.	336-820-6001	SBA Office - Houston District Office	08/01/2008	07/14/2010	1,009,700.00	1,035,000.00	708,314.27
Monira HamidKundi, MD, PA	349-528-5010	SBA Office - Houston District Office	07/01/2009	08/11/2010	270,000.00	275,000.00	187,597.43
Hastings Law Firm, PC	382-118-5000	SBA Office - Houston District Office	12/24/2009	08/11/2010	343,400.00	349,000.00	238,078.26
Saint Arnold Brewing Company	326-244-6005	SBA Office - Houston District Office	05/23/2008	09/15/2010	2,306,163.00	2,359,000.00	1,601,412.81
Slater Gym, LLC	374-867-5008	SBA Office - Houston District Office	11/13/2009	09/15/2010	584,000.00	591,000.00	401,201.19
Cares Control Systems, Inc.	391-625-5000	SBA Office - Houston District Office	02/18/2010	10/13/2010	609,967.00	617,000.00	419,912.58
Complete Health Care Services, PA	256-626-6004	SBA Office - Houston District Office	12/06/2006	10/13/2010	1,094,400.00	1,127,000.00	767,064.53
Counrty Inn & Suites	345-188-6007	SBA Office - Houston District Office	10/03/2008	10/13/2010	1,444,200.00	1,479,000.00	1,006,565.85
Portagas, Inc.	388-791-5008	SBA Office - Houston District Office	02/03/2010	10/13/2010	890,060.00	899,000.00	611,834.13
MODCO Industries, LLC	361-940-5001	SBA Office - Houston District Office	09/08/2009	11/17/2010	738,000.00	746,000.00	512,666.57
Oakdale Private School, LLC	393-807-5006	SBA Office - Houston District Office	02/27/2010	12/15/2010	800,000.00	809,000.00	567,335.07
The Haston Law Firm, P.C.	386-229-5005	SBA Office - Houston District Office	01/20/2010	12/15/2010	306,000.00	312,000.00	218,798.73
ABC Dual Language Center, LLC	353-805-5001	SBA Office - Houston District Office	07/27/2009	02/16/2011	139,991.00	144,000.00	103,545.61
Texas Institute of Chest and Sleep Disorders, PA	368-528-5000	SBA Office - Houston District Office	10/08/2009	02/16/2011	647,700.00	655,000.00	470,990.99
Safety RX Services and Supply Corp.	323-925-6009	SBA Office - Houston District Office	04/29/2008	03/16/2011	464,000.00	478,000.00	344,164.24
Creacorn, Inc.	378-538-5003	SBA Office - Houston District Office	11/25/2009	03/16/2011	553,511.00	561,000.00	403,924.89
Advanced Pain Management Specialists of Bayto	369-032-5004	SBA Office - Houston District Office	10/13/2009	04/13/2011	459,500.00	466,000.00	336,946.62
Ramada Inn #24633	349-500-6003	SBA Office - Houston District Office	10/22/2008	04/13/2011	1,326,500.00	1,359,000.00	982,641.67
Tiny Treasures Learning Center, Inc.	339-785-5000	SBA Office - Houston District Office	04/28/2009	05/11/2011	358,075.00	364,000.00	262,622.31
Denny's 8683	447-623-5005	SBA Office - Houston District Office	12/23/2009	06/15/2011	978,800.00	989,000.00	714,422.10
Jacinto Medical Group, P.A.	348-482-5000	SBA Office - Houston District Office	06/25/2009	08/17/2011	386,200.00	392,000.00	282,933.60
Gloria's Restaurant #1	396-498-5001	SBA Office - Houston District Office	03/15/2010	10/12/2011	1,032,056.00	1,042,000.00	748,751.14
Cavazos Funeral Home Inc	469-700-5010	SBA Office - Houston District Office	05/23/2011	03/14/2012	202,961.00	211,000.00	154,481.66
Yellow Rose Travel Plaza	316-856-6010	SBA Office - Houston District Office	02/20/2008	07/11/2012	1,465,000.00	1,500,000.00	1,117,087.36
G & L Installations, Inc.	482-892-5005	SBA Office - Houston District Office	08/18/2011	10/17/2012	149,167.90	156,000.00	117,286.67
Barrett Vending, LLC	529-975-5000	SBA Office - Houston District Office	07/05/2012	02/13/2013	187,600.00	196,000.00	150,445.50
ITD Precision	486-920-5008	SBA Office - Houston District Office	09/15/2011	05/15/2013	425,896.00	439,000.00	340,732.98
Gloria's Midtown Houston, Inc.	557-116-5000	SBA Office - Houston District Office	11/20/2012	06/12/2013	1,768,374.00	1,819,000.00	1,430,998.60
Color Interiors	515-934-5004	SBA Office - Houston District Office	04/19/2012	08/14/2013	426,000.00	441,000.00	355,295.71
JL United Realty, LLC	617-185-5001	SBA Office - Houston District Office	05/08/2013	09/11/2013	200,200.00	209,000.00	170,687.18
Cigar Frog's	528-313-5008	SBA Office - Houston District Office	07/25/2012	09/11/2013	362,303.00	375,000.00	306,257.40

Reference Name	SBA Loan #	SBA Office	SBA Approval Date	Funded Date	Primary Loan Amount	Primary Gross Debenture	Primary Loan Balance
ADDI, LLC	572-527-5002	SBA Office - Houston District Office	01/04/2013	10/16/2013	279,040.85	290,000.00	236,571.76
Texas One Volleyball	547-861-5000	SBA Office - Houston District Office	10/10/2012	11/13/2013	879,480.00	906,000.00	742,528.66
Berryhill - Oak Forest	604-913-5004	SBA Office - Houston District Office	03/21/2013	06/17/2015	1,504,000.00	1,548,000.00	1,406,455.96
Celina Moving & Storage, LLC	767-556-5006	SBA Office - Houston District Office	06/23/2015	06/15/2016	498,000.00	515,000.00	469,179.83
Deluxe Inn & Suites-Baytown	746-201-5001	SBA Office - Houston District Office	03/12/2015	06/14/2017	662,251.00	683,000.00	469,875.02
Sleep Inn	723-874-5003	SBA Office - Houston District Office	11/20/2014	09/13/2017	1,520,000.00	1,564,000.00	1,507,552.04
153 loans					89,062,762.33	91,591,000.00	58,154,243.56

**Exhibit C. – Examples of CDC checklists
provided at CDC's request**

**(not directly applicable to current CDC operations,
each CDC must create and customize its own checklists)**

I – LIQUIDATION CHECKLIST

Liquidation Action Checklist

This checklist should be the 1st page of The Liquidation File (Hardcopy or Electronic)

Loan Name:

Loan Number:

Assigned Servicing Officer/Associate:

SAMPLE

Check box or N/A	Date	Pre Liquidation Task
		1. Demand Letter Sent with Treasury Offset notification at 60 days past due.
		2. Site Visit completed before loan is 60 days past due. If not why?
		3. Property Taxes Delinquent?
		4. Is Hazard Insurance/ Flood Insurance in place? If no, should it be force placed?
		5. CDC Status Report Submitted to SBA for loans 60 days or more past due. And updated every 90 days thereafter (insert cells as needed).
		6. Confirm Status of Third Party Lender
		a. Current – Yes or No
		b. How far past due:
		c. If Notice Of Default filed, Sale Date:
		d. Balance: \$
		e. Interest Due: \$
		f. Expenses to date: \$
		g. Contact & Phone #:
		7. Workout Possible? No Deferment Considered? If Yes – needs list to borrower If No – Debenture Purchase
Check box or N/A	Date	Debenture Purchase Task
		8. Reason for Debenture Purchase:
		9. Review the SBA Loan Authorization for collateral and guarantors.
		10. Run Updated Credit Reports on Guarantors
		11. Appraisal ordered?
		12. Environmental Report Ordered?
		13. Received Debenture Purchase notice from SBA
		14. Submit Borrower/Guarantor info, copy of SBA Authorization/ 327 Actions, to SBA within 5 days of Debenture Purchase notice.
		15. Post Debenture Purchase Status Report due to SBA within 15 days of DP Date.

		16. Prepare & Submit Liquidation Plan to SBA at the latest 30 days after Debenture Purchase. Date Approved by SBA:	
		17. Prepare Litigation Plan if Attorney fees are expected to exceed \$10,000. Date Approved by SBA:	
Check box or N/A	Date	Post Debenture Purchase Task	
		18. Collateral Analysis Protective Bid Analysis and recommendation to SBA.	
		19. Bankruptcy Filed? Type: Attorney:	
		20. Loan Modification Possible?	
		21. Short Sale considered? Issue Needs list to client	
		22. Offer in Compromise to be considered? Issue Needs list to client	
		If no Modification or OIC possible, what is next step? Foreclosure? Charge off? Charge-off	
		If Business Assets as collateral: Review UCCs filing	
		b. Are business assets to be part of unified sale No	
		c. Appraisal needed? No	
		d. If less than \$5k abandon assets?	
		e. If over \$5k recoverable value and not unified sale, prepare to liquidate the business assets.	
		25. Follow Liquidation Plan & update as needed.	
		26. Liquidation Complete If Yes - Send Wrap up report to SBA If No – Status report to SBA every 90 days. No	

Checklist - Documents (typically) Needed for Liquidation File

Original Authorization and amendments Liquidation Plan and SBA approvals

Amortization and Prepayment Premium Schedules Colson loan payment history

Property tax and bank payoff documentation Note

Title Policy

Foreclosure Title Report

Recorded Trust Deed, mortgages, and UCCs Security Agreements

Guaranty Agreements Recorded Notices of Default Notice of Trustee's Sale

All correspondence regarding the liquidation Sales Force Activity Notes

Original and new appraisals Current insurance certificate Credit Reports

Site Visits Reports

Current and historical business financials and tax returns Current and historical personal financials and tax returns

Financial Spreads

Other:

Notes:

!! – SUBORDINATION CHECKLIST

SAMPLE

SAMPLE SUBORDINATION CHECKLIST (this is a sample only, and each CDC should review and make changes to suit its internal control and lending policies)

List of required information to process request for Subordination to new First Mortgage/Deed of Trust for _____, SBA# _____, property address: _____.

Here is some basic background on the subordination process. The following list of items would be required before processing of this request could begin:

A written request from the borrower addressed to the CDC (and signed by the borrower/operating company/all guarantors) as to the refinance and why the refinance is better for the business

The following signers are required:

Borrower (EPC): _____

Operating Company: _____

Individual Guarantor(s): _____

Affiliate Guarantor(s): _____

If the (NEW TPL) Bank's new first shows an increase over the current first mortgage balance (outside of closing costs incidental to the transaction), I will need a detailed use of proceeds from the bank (the bank's credit write up for instance) to determine what of those costs may be included.

A copy of the executed NEW TPL Bank commitment letter.

Copies of the existing bank's (in this case, _____) computerized loan history on their existing first mortgage.

A payoff letter from _____ (the existing bank) reflecting the amount of the pay off broken down into principal, interest and per diem (it is important to note that the SBA will not subordinate to any prepayment penalties, so these, if any, would have to be handled outside of the subordination transaction – paid directly by the borrower).

A new appraisal for the property (only required if cash out for project property improvements is part of subordination request, or if _____ (the new Bank) is requiring a new appraisal, then the SBA would like to have a copy for its records).

Schedule of Indebtedness for _____, Operating Company (blank form attached).

Financial statements (balance sheet and income statement) less than 90 days old for the Operating Company, _____, (given the timing of this request, at least _____ year to date, ___-month, statement would be preferred)

2017, 2016 and 2015 Tax Return (complete copies) for the Operating Company, _____.

2017, 2016 and 2015 Tax Return (complete copies) for the Borrower (EPC), _____.

Current (less than 90 days) personal financial statement on _____ (personal Guarantor(s)) (blank form attached).

2017, 2016 and 2015 personal tax returns (complete copies) on _____ (personal guarantor(s)).

Other items required based on a current file review:

None at this time.

NOTE: This is an area where you could request updated insurances and property tax receipts, where applicable, among any other required items not already requested.

III- DEFERMENT CHECKLIST

SAMPLE

SAMPLE DEFERMENT CHECKLIST (this is a sample only, and each CDC should review and make changes to suit its internal control and lending policies)

List of required information to process request for a payment deferment for _____, SBA# _____, property address: _____.

The following list of items would be required before processing of this request could begin:

A written request from the borrower addressed to the CDC (and signed by the borrower/operating company/all guarantors) as to the deferment, why the deferment will assist the business and what steps the business is taking to be able to resume payments post deferment. If the first mortgage holder is also providing relief, please discuss this as well.

The following signers are required:

Borrower (EPC): _____

Operating Company: _____

Individual Guarantor(s): _____

Affiliate Guarantor(s): _____

If possible, please provide copies of the bank's computerized loan history on the first mortgage.

Schedule of Indebtedness for _____, Operating Company (blank form attached).

Financial statements (balance sheet and income statement) less than 90 days old for the Operating Company, _____.

2017, 2016 and 2015 Tax Return (complete copies) for the Operating Company, _____.

2017, 2016 and 2015 Tax Return (complete copies) for the Borrower (EPC), _____.

Other items required based on a current file review:

None at this time.

NOTE: This is an area where you could request updated insurances and property tax receipts, where applicable, among any other required items not already requested. In some cases you may wish to update personal guarantor information as well. You may also want to discuss whether or not you will require a site visit and schedule and appointment for its completion.

IV – GUARANTOR RELEASE CHECKLIST

SAMPLE

SAMPLE Guarantor Release CHECKLIST (this is a sample only, and each CDC should review and make changes to suit its internal control and lending policies)

List of required information to process request for release of _____, guarantor, for _____, SBA# _____, property address: _____.

Here is some basic background on the subordination process. The following list of items would be required before processing of this request could begin:

A written request from the borrower addressed to the CDC (and signed by the borrower/operating company/all guarantors) as to the release of guarantor is for the business, and discuss terms and conditions of buy/sell agreement, if any

The following signers are required:

Borrower (EPC): _____

Operating Company: _____

Individual Guarantor(s): _____

Affiliate Guarantor(s): _____

Copy of buy/sell agreement, if any.

A copy of the TPL approval of guarantor release, and executed release documents.

Copies of the existing bank's (in this case, _____) computerized loan history on their existing first mortgage.

Schedule of Indebtedness for _____, Operating Company (blank form attached).

Financial statements (balance sheet and income statement) less than 90 days old for the Operating Company, _____, (given the timing of this request, at least _____ year to date, __-month, statement would be preferred)

2017, 2016 and 2015 Tax Return (complete copies) for the Operating Company, _____.

2017, 2016 and 2015 Tax Return (complete copies) for the Borrower (EPC), _____.

Current (less than 90 days) personal financial statement on _____ (personal Guarantor(s)) (blank form attached).

2017, 2016 and 2015 personal tax returns (complete copies) on _____ (personal guarantor(s)).

Other items required based on a current file review:

None at this time.

NOTE: This is an area where you could request updated insurances and property tax receipts, where applicable, among any other required items not already requested. In some instances, a new appraisal may be required to show that the loss of the guarantor is mitigated by the current strength of collateral value in project property. If Guarantor substitution is occurring, all normal at application guarantor information and forms should also be requested.

V – ASSUMPTION CHECKLIST

SAMPLE

504 ASSUMPTION CHECKLIST**LOAN ASSUMPTION**Original Borrower: **Insert Borrower Name.**Loan Number: Assumptor: **TERMS OF SALE:**

CDC & Current TPL or

Assumptor's Bank

Lender Credit Memorandum

N/A

Escrow Instructions

CURRENT OWNER

Copy of Buy/Sell Agreement

CURRENT OWNER

Copy of seller carry-back Note (if applicable)

CURRENT OWNER

Lease Agreement (if Applicable)

Current TPL or

Assumptor's Bank

Approval of senior lien holder (copy of executed bank commitment letter evidencing approval of assumption of both loans, and terms and conditions for same); copy of bank payment histories for current owner also requested.

PURCHASER:

ASSUMPTOR Personal Financial Statement of borrowers, guarantors and major stockholders (this is required for all 20% or greater owners plus any officers of the assuming entity, or for all individual owners if being assumed by individuals) Blank SBA Form 413 is attached.

ASSUMPTOR Most recent two years (2017 and 2016) Personal Federal Tax Return (required of same persons as PFS above)

ASSUMPTOR Business Financial Statements (latest FYE) including Profit and Loss Statement (See Tax Returns) for assuming entity and/or any affiliated companies of assuming entity.

ASSUMPTOR Interim Business Financial Statement less than (from November 2011 or later) 90 days old for assuming entity and/or any affiliated companies of assuming entity.

ASSUMPTOR Three years of Business Federal Tax Returns for assuming entity and/or any affiliated companies of assuming entity (2005, 2016 and 2017).

ASSUMPTOR Statement of Personal History (SBA Form 912 on all owners of 20% or more and all Officer, Directors and New guarantors – regardless of ownership percentage) Blank SBA Form 912 is attached.

- ASSUMPTOR Statements Required by Laws and Executive Orders (Blank SBA Form 1244C attached)
- ASSUMPTOR Environmental Questionnaire and Disclosure Statement, signed by the seller; further environmental reporting may be required at the discretion of the SBA.
- ASSUMPTOR Current real estate appraisal must be provided prior to final approval (typically ordered by assumptor's bank).
- N/A _____ Landlord Waiver (if no RE involved)
- ASSUMPTOR Business Credit report (if assumptor is a business entity)
- ASSUMPTOR Credit reports on all individual assumptors and/or principals of business entity assumptors
- ASSUMPTOR Copy of Organizational Documents for business entity assumptor
- ASSUMPTOR Copy of Resolution authorizing purchase and assumption of the SBA Loan (for business entity assumptors)
- ASSUMPTOR Other CDC SBA 504 Loan Assumption Agreement and **1% Assumption Fee**
- ASSUMPTOR Other W9 on new borrowing entity or individual assumptor who will be claiming the interest for taxes
- ASSUMPTOR Other Debt Schedule for new borrowing entity (or individuals); blank form attached.
- ASSUMPTOR Other 4506T on new Borrowing entity/operating company (or individual assumptors); blank form attached. Please duplicate as necessary.
- ASSUMPTOR Other Prior Government Financing Certification for new Borrowing entity/operating company (or individual assumptors); blank form attached.
- ASSUMPTOR Other ACH Debit authorization for payments (required at closing)

SELLER:

- CURRENT OWNER Two years Business Financial Statements (FYE) including Profit and Loss statement for each of the following entities:
Current O/C
- CURRENT OWNER Current Interim Business Financial Statement (balance sheet and income statement), less than 90 days old for each of the following entities:
Current O/C
- CURRENT OWNER Three years Business Federal Tax Returns for each of the following entities:
Current O/C.
- CURRENT OWNER Current Personal Financial Statement of each of the personal guarantors as follows (SBA Form 413 attached):
Current Guarantors
- CURRENT OWNER Two years Personal Federal Tax Returns of the personal guarantors as follows:

Current Guarantors

CURRENT OWNER Written consent from all guarantors/co-obligors to this action/request (should be signed by individuals representing the entities, as well as the individuals, all named below:

Current Obligor List (EPC, OC, Guarantors)

N/A Current or most recent RE appraisal (if exchanging properties)

N/A Assignment of Lease (seller retains RE and leases back to assumptor)

CURRENT OWNER Guaranty release requested (if requesting release of guaranties, a letter needs to be submitted requesting this – separate from the consent to the assumption listed above; typically, release of guarantors/obligors is not allowed)

ALL DOCUMENTS MUST BE SIGNED AND DATED

Subsection 3

Board Acknowledgement of Independent Loan Review Report

The H-GALDC Board of Directors approved the Independent Loan Review report and plans to resolve on March 26, 2019. Please refer to the Independent Loan Review section (highlighted below) for additional details.

Houston-Galveston Area Local Development Corporation
LDC Committee
March 26, 2019

The March 26, 2019 LDC Committee meeting was held at H-GAC Offices, 3555 Timmons Lane, Houston, TX, Conference Room D, 2nd Floor. The meeting was called to order at 10:10 a.m.

Present: Brandi Downey, Richard Brown, Carolyn Gibson, Salim Nathani, Dwight Sullivan

Teleconference: DC Dunham

Absent: Charles Rushing, Colleen McGrath, Jackie Pottinger

H-GAC staff: Ronnie Barnes, Omar Fortune, Timothy Oyewale, Isaac Perez, Judy Przyborski

Guest: Scott Actkinson (Statesman Business Advisors)

Welcome: Dwight Sullivan welcomed everyone. He announced that Missy Malechek stepped down as LDC President and he will be interim president until election of officers, which will be held in May.

Approve Previous Minutes: The November 8, 2018 minutes were approved as distributed.

Recap Visits: Omar Fortune stated that he and Isaac Perez, new LDC Business Developer, have been visiting with board members, RLF members, and surrounding communities. LDC strategy is to focus on rural communities and appreciate your willingness to help introduce our program to the community. We want to leverage all resources available at H-GAC. H-GAC serves a much larger region. Our goal is to reach out to groups and associations, such as SBDC's and banks. It is important to have representation in each county to help introduce our program.

Omar stated that LDC staff met with Houston District SBA last month. SBA staff were very engaged and focused, offering suggestions. It was a very good experience.

Reports: Omar Fortune reported, that in the past, LDC staff sent monthly reports to the board. We will begin sending those again. The Status of Portfolio, Status of Portfolio Non-Current, and Application of Funds reports have been distributed prior to the meeting. These reports are from the beginning of the month for the prior month. The distributed reports are ending 02-28-2019. The Status of Portfolio shows current loan status for revenue, types of loans, loan amount, and fees. The Application of Funds shows breakdown of fees and includes all loans. Status of Portfolio Non-Current shows loans that are not current, such as missed or late payments. This report is an early warning report to contact borrower. Omar stated we will begin sharing these reports with the committee. Salim Nathani suggested a summary of the reports, to include the industry concentrations and geographic locations.

Projections: Historical and Forecast Projections were distributed prior to the meeting. The Historical Projections show 2013 as the last year where revenue exceeded expenses. Since then, revenues have

decreased. Revenue fees are generated from loan production. And while we are projecting no new loans for 2019, due to the lengthy SBA approval process, we anticipate adding new loans to the portfolio in 2020 and beyond. We anticipate our revenue and expenses to break even by 2024 and our revenue to exceed expenses thereafter. Fortunately, due to healthy loan activity since the 1980's, the LDC has built a sizable reserve and will use the reserve to cover shortfalls until annual revenues exceed expenses. Carolyn Gibson suggested that we offer additional loan opportunities to borrowers who have paid off their loans.

Loan Activity: Omar Fortune reported there are a couple of loans in the pipeline – Texas United Volleyball and Toddy Blends. Isaac Perez followed-up on a few prospects. One prospect is a million-dollar loan for a dance studio in which the borrower owns the land. The borrower's 30-year business was affected by Hurricane Harvey and will need to start over. We also have a \$3.5 million dollar loan prospect for a hotel which is currently in underwriting with Statesman Business Advisors.

Orientation/Training: Scott Actkinson with Statesman Business Advisors briefly explained the SBA504 loan program. These are government funded loans. Land, building, professional fees, and appraisals are all eligible. The job requirement for SBA loans is one (1) job to be created for every \$75,000 loaned. Loans are structured 50/40/10 for a multi-purpose loans that have been in business for more than two (2) years. The bank's portion is 50%, SBA's portion is 40%, and the borrower contributes 10% equity. For businesses less than two (2) years, add 5% equity for 50/35/15. For special purpose, add another 5% equity for 50/30/20. SBA can never loan more than 40%. The loan terms for SBA504 loans are 20 years and 25 years with declining prepayment penalty during the first 10 years. Ten-year loans are available for equipment. Generally, SBA504 rates are significantly lower than bank rates. Interest rates are fixed but they cannot be locked in until the loan funds.

Scott suggested that we target loans for doctor's offices, dentists and veterinarian clinics.

Scott stated that SBA referred Statesman Business Advisors to H-GAC years ago, and he has enjoyed working with the LDC. He is available anytime and will be happy to answer any questions.

Independent Loan Review: The Independent Loan Review was distributed prior to the meeting. This report shows findings, review type, and plans to resolve. The committee agreed that this report was reasonable.

One of the findings stated that *"CDC should take steps to ensure that risk rating striation used in CDC Ventures systems matches CDC risk rating striation and definitions in Internal Controls...Ventures striation is allowing for more detail within each category."* The current risk rating is a 5-sector scale. Omar requested approval to modify the risk rating, using the 7-sector scale. Richard Brown motioned to adopt the 7-sector scale risk rating; seconded by Carolyn Gibson. Motion approved. Copy of risk rating worksheet attached.

There were no other questions or comments. Carolyn Gibson moved to approve the Independent Loan Review; seconded by Salim Nathani. The Independent Loan Review was approved as distributed.

Other Business: Omar Fortune suggested scheduling the upcoming LDC committee meetings for the remainder of the year. He suggested the 1st Tuesday in the months of May, August, and November. Committee agreed. Omar will send notice to committee.

Omar stated that we have an opportunity to diversify revenue, by 7a referrals. Some banks will pay referral fees. He has been in contact with NewTek and Advantage Capital. But, of course, our main focus is 504.

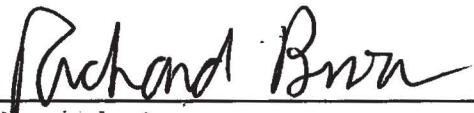
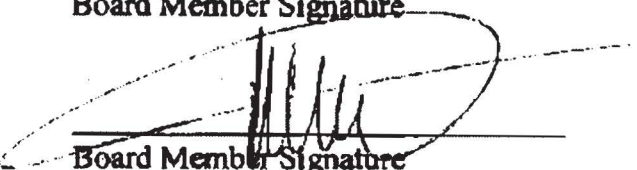
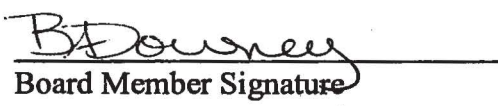
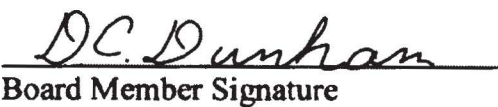
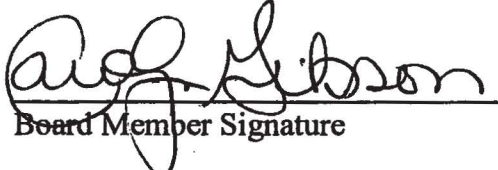
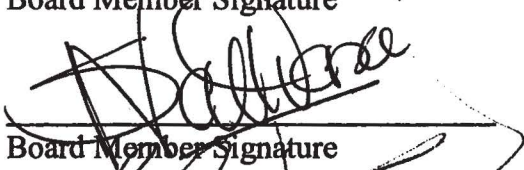
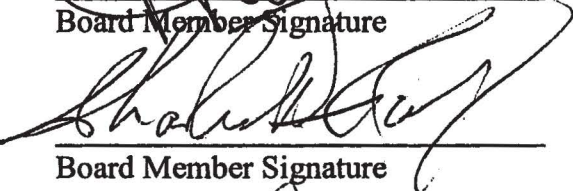
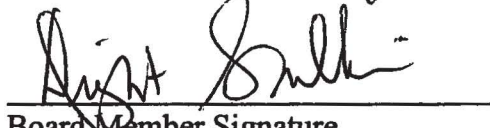
Questions/Comments: There were no other questions or comments.

Adjournment: Meeting was adjourned at 12:15 p.m.

BOARD MEMBER ACKNOWLEDGEMENT

The Board Members of H-GALDC acknowledge that they have read and understand Section §120.823 of the Federal Register.

The Board Members of H-GALDC acknowledge that they have received and read the H-GALDC 2018 Independent Loan Review.

Richard Brown	 Board Member Signature	<u>5/7/2019</u> Date
Jackie Bryan	 Board Member Signature	<u>4/19/2019</u> Date
Brandi Downey	 Board Member Signature	<u>5/7/19</u> Date
DC Dunham	 Board Member Signature	<u>May 7, 2019</u> Date
Carolyn Gibson	 Board Member Signature	<u>5/7/19</u> Date
Colleen McGrath	 Board Member Signature	 Date
Salim Nathani	 Board Member Signature	<u>05.07.2019</u> Date
Charles Rushing	 Board Member Signature	<u>5-7-2019</u> Date
Dwight Sullivan	 Board Member Signature	<u>5-7-09</u> Date

TAB 3

FINANCIAL

REPORT

Houston-Galveston Area Council

Comprehensive Annual Financial Report for 2018

The Comprehensive Annual Report satisfies:

- **Section A – Audited Balance Sheet**
- **Section B – Audited Income Statement**
- **Section C – Audited Source and Application of Funds**
- **Section D – Footnotes**

Comprehensive Annual Financial Report

**FOR THE YEAR ENDED DECEMBER 31, 2018
HOUSTON, TEXAS**



Houston-Galveston Area Council

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

For the year ended
December 31, 2018

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

Finance Staff:

Jean Mahood, CPA
Marivic Keenan
Shaun Downie
AbduI Kargbo
Cynthia Marquez
David Waller
Dawn Debolt
Jasmin Logan

Judy Alexander
Marcia Porter
Raman Bakari
Rebecca Bowden
Sophie Huang
Yolanda Tan

HOUSTON-GALVESTON AREA COUNCIL COMPREHENSIVE ANNUAL FINANCIAL REPORT For the Year Ended December 31, 2018

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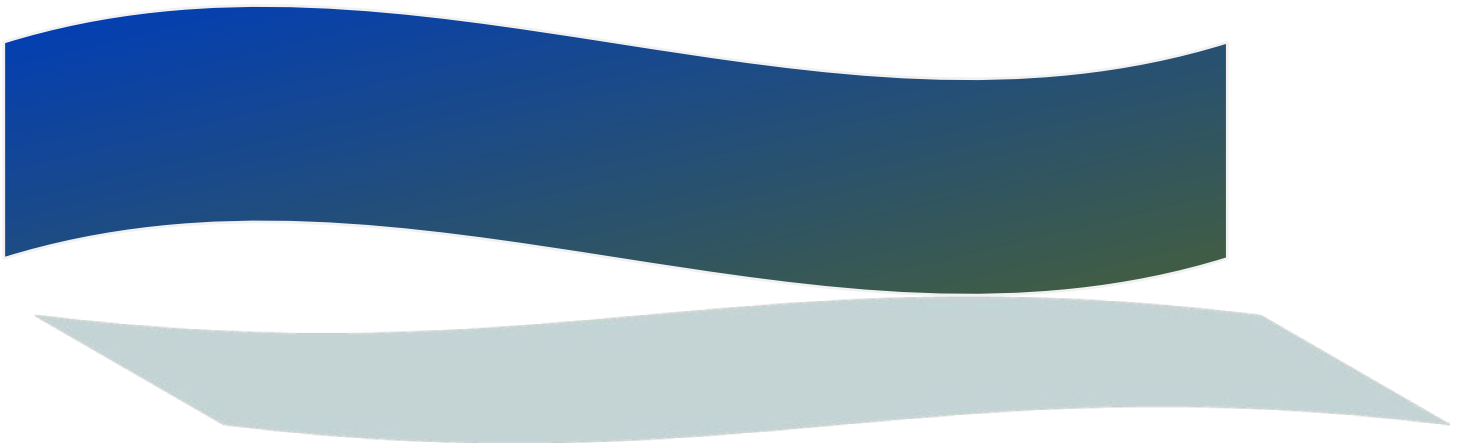
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Introductory Section



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Houston-Galveston Area Council

June 4, 2019

The Honorable Stacy Adams and Members
of the Board of Directors
Houston-Galveston Area Council
Houston, TX

Dear Commissioner Adams and Members of the Board of Directors:

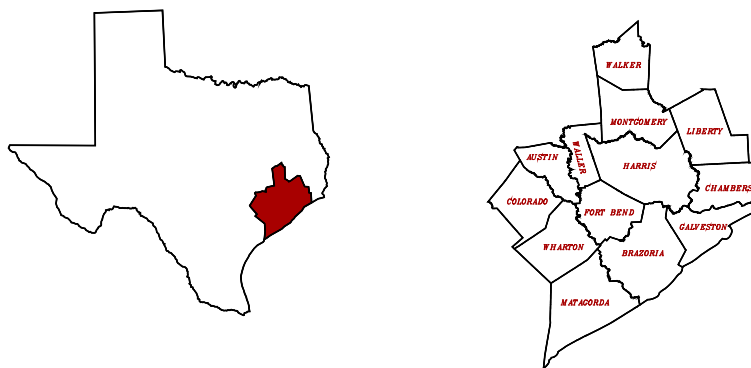
The Comprehensive Annual Financial Report (CAFR) of the Houston-Galveston Area Council, (the “Council” or “H-GAC”) for the fiscal year ended December 31, 2018 is hereby submitted. This report was prepared by the Department of Finance, which accepts responsibility for the accuracy, completeness, and fairness 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 Generally Accepted Accounting Principles (“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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State of Texas Uniform Grant Management Standards* as well as Section 9 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 131 delegates from member local governments. A Board of Directors composed of 36 locally elected officials, members representing county governments, cities, and school districts provide more specific guidance and policy-making through its regular monthly meetings. During 2018, H-GAC's membership was comprised of the 13 county governments, 107 cities, and 11 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 continues to lead the nation in economic growth. While nationally, the economy did well in 2018, in Texas the economy showed unprecedented strength. According to the Federal Reserve Bank of Dallas, “annualized job growth in the first 10 months of 2018 was a robust 2.4 percent—well ahead of the nation’s 1.7 percent annualized increase.” Texas’ central U.S. location and its border with Mexico have boosted the concentration of the transportation and logistics industry. Texas is the largest exporting

state in the nation, and it is home to two large commercial airlines, a major railroad and two of the nation's busiest ports—Houston, a seaport, and Laredo, an inland port of entry. As Texas goes, so goes the H-GAC region. As of 2018, Houston had 21 Fortune 500 headquarters, 17 of which are related to oil and gas extraction and processing. The health services cluster, accounting for 10.7 percent of Houston's workforce, has also grown significantly in recent years. Two of the area's largest employers, with more than 20,000 workers each, are Memorial Hermann Health System and the University of Texas MD Anderson Cancer Center.

Major Initiatives

Workforce Services

Economic growth brings jobs to the region, and the Gulf Coast Workforce Board, staffed by H-GAC, assists individuals seeking employment or those wishing to change jobs or careers. In 2018, this program assisted more than 23,000 employers find candidates to help fill approximately 116,000 job opportunities.



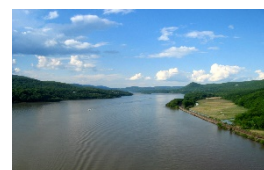
To assist individuals looking for work, H-GAC, through the Gulf Coast Workforce Board, offered 22,000 adults basic and secondary education, English language and literacy training, occupational skills training, workforce preparedness, and civics instruction.

Cooperative Purchasing

H-GAC administers a government-to-government procurement service nationwide to assist local governments in their procurement needs. The program provides a more efficient and effective procurement process for local governments when buying goods and services through standardized procurements and volume discounting. During 2018, HGAC Buy processed over \$1.7 billion in orders for times like fleet vehicles, fire trucks, street sweepers, and other capital equipment and services. This results in significant savings to local governments not just in our region but nationwide.

Water Resources

H-GAC runs several water resource programs and initiatives in cooperation with local communities and state and federal agencies. Activities range from identifying and resolving water quality issues to replacing failing septic tanks in rural communities. A major initiative of this program is the award-winning Rivers, Lakes, Bays 'N Bayous Trash Bash which brings out thousands of volunteers annually and collected over 9,000 pounds of trash from the waterways in 2018.



Transportation Improvement

The Houston-Galveston region will add more than 4 million people and nearly 2 million jobs by 2045. Updated every 4 years, the Regional Transportation Plan identifies highway, transit and other transportation investments needed to keep up with such explosive growth. Current studies and plan development are underway for the 2045 Regional Transportation Plan. Serving today and planning for tomorrow is the mission statement of H-GAC and continues to be the focus of the transportation program.



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.

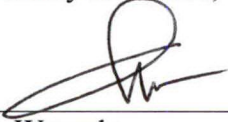
Awards and Acknowledgements

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, 2017. 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.

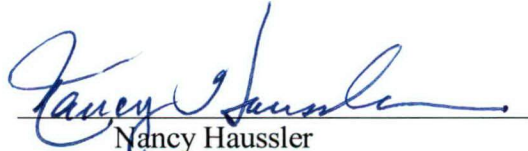
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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,

A handwritten signature in black ink, appearing to read 'CW', written over a horizontal line.

Chuck Wemple
Executive Director

A handwritten signature in blue ink, appearing to read 'Nancy Haussler', written over a horizontal line.

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, 2017

Christopher P. Morrill

Executive Director/CEO

HOUSTON-GALVESTON AREA COUNCIL PRINCIPAL OFFICIALS

OFFICERS OF THE BOARD OF DIRECTORS 2018

CHAIR
Council Member Floyd Emery
City of Missouri City

VICE CHAIR
Council Member Nancy Arnold
City of Waller

CHAIR ELECT
Commissioner Stacy Adams
Brazoria County

ADMINISTRATIVE STAFF

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

H-GAC MEMBER GOVERNMENTS**Counties**

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

Cities over 25,000 Population

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

Home Rule Cities

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

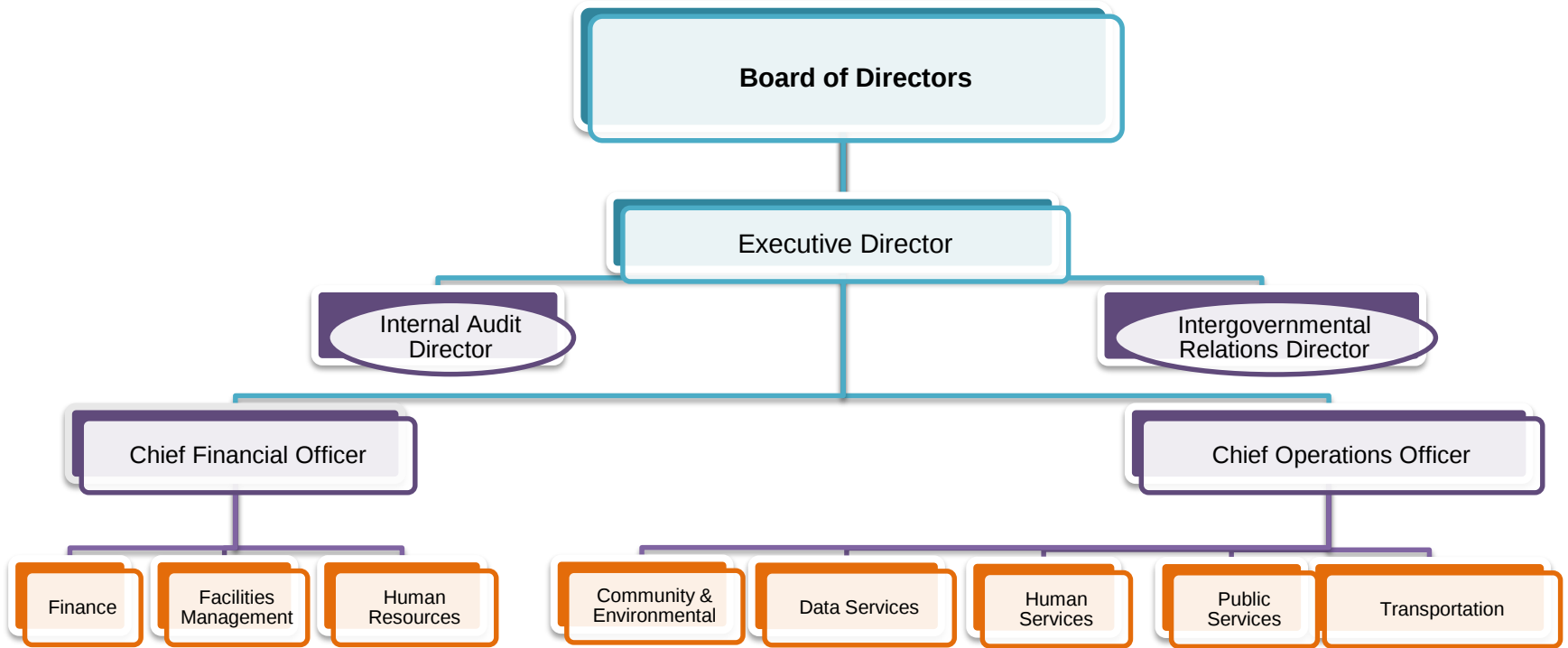
General Law Cities

Anahuac	East Bernard	Morgan's Point	Splendora
Arcola	El Lago	Needville	Spring Valley
Bayou Vista	Hedwig Village	New Waverly	Stagecoach
Beach City	Hillcrest Village	Oak Ridge North	Surfside Beach
Bellville	Holiday Lakes	Old River Winfree	Taylor Lake Village
Brazoria	Hunters Creek Village	Oyster Creek	Thompsons
Brookshire	Iowa Colony	Panorama Village	Tiki Island
Brookside Village	Jamaica Beach	Pattison	Waller
Bunker Hill Village	Jones Creek	Pine Point Village	Wallis
Clear Lake Shores	Kemah	Riverside	Weimar
Columbus	Kendleton	San Felipe	West Columbia
Daisetta	Magnolia	Shenandoah	Weston Lakes
Danbury	Meadows Place	Shoreacres	
Eagle Lake	Mont Belvieu	South Houston	

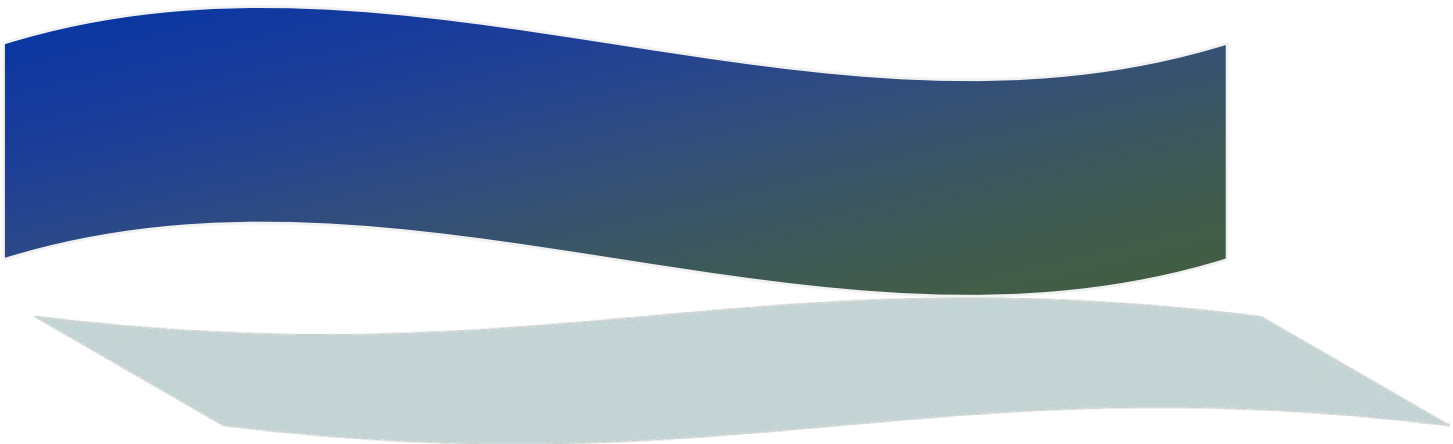
Independent School Districts

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

Houston-Galveston Area Council



Financial Section



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Houston Office
3737 Buffalo Speedway
Suite 1600
Houston, Texas 77098
713.621.1515 Main

whitleypenn.com

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, 2018, 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.

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, 2018, 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 25 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 section, the Supplemental Information as listed in the table of contents, and statistical section 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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.

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 date June 4, 2019 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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
June 4, 2019

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HOUSTON-GALVESTON AREA COUNCIL

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" or "the Council") for the year ended December 31, 2018. 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.

1. FINANCIAL HIGHLIGHTS

- The assets of H-GAC exceed its liabilities by \$34,788,220 on which \$25,686,407 is available to meet the Council's ongoing obligations to local governments and creditors.
- H-GAC's net position increased by \$1,156,825 during the year ended December 31, 2018.
- At the end of the year, the nonspendable fund balance and unassigned fund balance are \$210,135 and \$10,227,449, respectively.

2. 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 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 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 four 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, the Regional Excellence Corporation, and the Gulf Coast Regional Emergency Communications District. Both the Regional Excellence Corporation and the Gulf Coast Regional Emergency Communications District are blended component units presented as 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 2018. 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.

3. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

H-GAC's assets exceed liabilities by \$34,788,220 at the close of the most recent year, 2018 which is an increase over 2017. Approximately 2.2% of the Council's net position is invested in capital investments. These capital investments are within the office facilities of H-GAC to provide service and do not represent funds available for future spending. Most of the increases to net position came from increased revenues over expenses in the business-type activities from the prior year. There was restricted net position of \$8,323,514 at the end of the year. The balance of unrestricted net position in 2018 of \$25,686,407 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	
	2018	2017	2018	2017	2018	2017
Assets						
Current and Other Assets	\$ 62,373,528	\$ 75,106,948	\$ 16,405,712	\$ 15,300,640	\$ 78,779,240	\$ 90,407,588
Capital Assets, Net	807,349	1,170,253	-	-	807,349	1,170,253
Total Assets	63,180,877	76,277,201	16,405,712	15,300,640	79,586,589	91,577,841
Liabilities						
Current and Other Liabilities	44,619,873	57,662,135	172,697	255,261	44,792,570	57,917,396
Long-Term Liabilities	5,799	29,050			5,799	29,050
Total Liabilities	44,625,672	57,691,185	172,697	255,261	44,798,369	57,946,446
Net Position						
Net Investment in Capital Assets	778,299	1,101,084	-	-	778,299	1,101,084
Restricted for:						
EPA RLF Program	6,393,395	7,121,000			6,393,395	7,121,000
Regional Excellence Corp	280,011	354,100			280,011	354,100
Gulf Coast 911 Reg District	1,650,108	1,007,662	-	-	1,650,108	1,007,662
Unrestricted	9,453,392	9,002,170	16,233,015	15,045,379	25,686,407	24,047,549
Total Net Position	\$ 18,555,205	\$ 18,586,016	\$ 16,233,015	\$ 15,045,379	\$ 34,788,220	33,631,395

Statement of Activities

H-GAC's net position increased by \$1,156,825 for the year. This reflects a decrease in net position for governmental activities of \$30,811 and an increase in net position in business-type activities of \$1,187,636. The change in net position in governmental activities represents a 0.2% decrease of net position for governmental activities and the change in net position in the business-type activities represents a 7.9% increase in net position for this activity. Overall, H-GAC increased net position by 3.4%. Key elements of the increase along with percentage analysis are as follows:

HOUSTON-GALVESTON AREA COUNCIL CHANGE IN NET POSITION

	Governmental Activities		Business-Type Activities		Total		Percent	
	2018	2017	2018	2017	2018	2017	2018	2017
Program Revenues								
Charges for Services	2,556,832	2,079,158	4,898,445	5,801,768	7,455,277	7,880,926	2.23%	2.65%
Operating Grants and Contr	326,678,493	288,363,857			326,678,493	288,363,857	97.54%	97.07%
General Revenues								
Interest Income	331,766	58,491			331,766	58,491	0.10%	0.02%
Other Income	447,179	751,573			447,179	751,573	0.13%	0.25%
Transfer In	175,000	100,000	(175,000)	(100,000)	-	-	0.00%	0.00%
Total Revenues	330,189,270	291,353,079	4,723,445	5,701,768	334,912,715	297,054,847	100.00%	100.00%
Expenses								
General Government	2,997,276	2,615,725			2,997,276	2,615,725	0.90%	0.92%
Workforce Programs	273,118,245	232,028,757			273,118,245	232,028,757	81.83%	81.43%
Transportation	22,502,463	28,150,854			22,502,463	28,150,854	6.74%	9.88%
Community and Environ	16,158,934	13,305,656			16,158,934	13,305,656	4.84%	4.67%
Criminal Justice	1,232,945	1,356,078			1,232,945	1,356,078	0.37%	0.48%
Aging Services	11,131,671	10,521,725			11,131,671	10,521,725	3.34%	3.57%
Reg Excellence Corp	145,893	122,317			145,893	122,317	0.04%	0.04%
Gulf Coast 911 Reg Dist	2,932,655	2,841,896			2,932,655	2,841,896	0.88%	1.00%
Cooperative Purchasing			3,535,809	3,490,530	3,535,809	3,490,530	1.06%	1.23%
Total Expenses	330,220,082	290,943,008	3,535,809	3,490,530	333,755,891	284,933,538	100.00%	100.00%
Change in Net Position	(30,811)	410,072	1,187,636	2,211,238	1,156,825	2,621,310		
Net Position-Beginning of Yr	18,586,016	18,175,944	15,045,379	12,834,141	33,631,395	31,010,085		
Net Position-End of Yr	18,555,205	18,586,016	16,233,015	15,045,379	34,631,395	33,631,395		

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 2017 and 2018, revenue in this program was \$5,801,768 and \$4,898,445 respectively. During the year, operating expenses for the program increased 1.30% and revenues decreased 15.6%. The combined result was reflected in an increase to net position of \$1,187,636 or 7.9%. By comparison, the increase in 2017 was \$2,211,238 or 17.2%.

Business-Type Expenses	2018 Amount	2017 Amount	Increase (Decrease) from 2017	Increase (Decrease)
Personnel and Benefits	\$ 2,817,211	\$ 2,654,397	\$ 162,814	4.66%
Consultant and Contract Svcs	107,205	139,895	(32,690)	(0.94%)
Equipment Rental and Leases	34,031	21,229	12,802	0.37%
Lease of Office Space	206,529	211,371	(4,842)	(0.14%)
Travel	52,378	59,930	(7,552)	(0.22%)
Other	318,455	403,708	(85,253)	(2.44%)
Total Expenses	<u>\$ 3,535,809</u>	<u>\$ 3,490,530</u>	<u>\$ 45,279</u>	<u>1.30%</u>

4. 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 unassigned balance represents H-GAC's available resources at the end of the year.

H-GAC's general fund balance for year 2018 is \$10,437,584. Included in this fund balance is \$210,135 which has been identified for prepaid items and is nonspendable. The balance of \$10,227,449 is available for use at H-GAC's discretion.

The general fund balance of H-GAC increased by \$509,301. 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 \$6,393,395 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 2018 the corporation had cash and pledged contributions of \$71,804 and expenditures of \$145,893. The corporation's bylaws restrict the use of these funds.

Additionally, in February 2016, the H-GAC Board of Directors established the Gulf Coast Regional Emergency Communications District, a blended component unit of H-GAC, to provide administrative support and coordination of emergency communications in Brazoria, Chambers, Colorado, Liberty, Matagorda, Walker, Waller, and Wharton counties including all cities therein. All board members of the District serve in a dual capacity as both a board member of the H-GAC and a board member of the District. In 2018, the District had income of \$3,575,101 and expenditures of \$2,932,655. The District'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.

5. CAPITAL ASSET ADMINISTRATION

H-GAC's investment in capital assets for governmental activities amount to \$1,170,253 and \$807,349 (net of depreciation) for fiscal years ended December 31, 2017 and 2018 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 2018, 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 effect 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	Depreciation Expenses	Ending Balance
Governmental Activities					
Equipment, furniture and fixtures	\$1,170,253	\$128,747	\$0	\$(491,651)	\$807,349
Totals	<u>\$1,170,253</u>	<u>\$128,747</u>	<u>\$0</u>	<u>\$(491,651)</u>	<u>\$807,349</u>

6. DEBT ADMINISTRATION

Debt considered a liability of governmental activities consists of capital lease obligations and compensated absences. Debt balances related to capital leases in 2018 were \$29,050. Compensated absences increased by \$58,079 in 2018, finishing the year with an ending balance of \$984,192. Further information on the Council's debt can be found in Capital Lease Note 8 to the financial statements.

7. 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 FY2019 the per-capita membership revenue is estimated at \$395,538. This is the same as the budget for 2018.
- H-GAC increased estimated revenues and corresponding expenses by \$13,972,508 for 2019. The budget reflects increases mainly in Workforce, Transportation programs and decreases in Community & Environmental program of \$15,761,542, \$10,975,482, and \$13,518,736 respectively. The increase in Workforce programs is attributable primarily to the additional funding in Child Care Services (\$13,389,537), and Adult Literacy (\$582,971). These programs provide placement, career information and supportive services to area residents and provide literacy instruction, basic education, and integrated basic and occupational skill training to adults throughout the region. The increase in Transportation programs is attributable to the new funding of the tow and go program; the initial implementation of a quick clearance program for stalled vehicles. The decrease in the Community & Environmental program is attributable to the completion of the funding cycle for housing and disaster recovery due to Ike and the funding for Harvey recovery was lower than anticipated.

These factors were considered in preparing the budget for the 2019 fiscal year

8. 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.

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Energy Purchasing Corporation	Gulf Coast Economic Development Corporation	Local Development Corporation
ASSETS						
Cash and cash equivalents	\$ 38,930,608		\$ 38,930,608	\$ 207,411	534,074	\$ 2,602,940
Investments	8,259,360		8,259,360			309,285
Receivables, net	29,296,313	\$ 1,570,195	30,866,508		162,020	30,584
Notes Receivable	-		-		1,104,261	
Due from Component Units	512,629		512,629			
Internal balances	(14,835,517)	14,835,517				
Prepaid expenses	210,135		210,135			
Capital assets, net	807,349		807,349			
Total Assets	<u>63,180,877</u>	<u>16,405,712</u>	<u>79,586,589</u>	<u>207,411</u>	<u>1,800,355</u>	<u>2,942,809</u>
LIABILITIES						
Accounts payable and accrued expenses	4,332,020	20,478	4,352,498			
Unearned revenues	20,370,328	152,219	20,522,547			
Due to grantee agencies	18,910,082		18,910,082			
Due to primary government				50,352	200,778	261,499
Long Term Liabilities						
Due within one year	984,192		984,192			
Due more than one year						
Obligation of capital leases:						
Due within one year	23,251		23,251			
Due more than one year	5,799		5,799			
Total Liabilities	<u>44,625,672</u>	<u>172,697</u>	<u>44,798,369</u>	<u>50,352</u>	<u>200,778</u>	<u>261,499</u>
NET POSITION						
Net investment in capital assets	778,299		778,299			
Restricted for:						
EPA RLF Program	6,393,395		6,393,395			
Regional Excellence Corporation	280,011		280,011			
Gulf Coast 911Regional District	1,650,108		1,650,108			
EDA RLF Program					1,599,577	
Local Development Corporation						2,681,310
Unrestricted	9,453,392	16,233,015	25,686,407	157,060		
Total Net Position	<u>\$ 18,555,205</u>	<u>\$ 16,233,015</u>	<u>\$ 34,788,220</u>	<u>\$ 157,060</u>	<u>\$ 1,599,577</u>	<u>\$ 2,681,310</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Unit		
			Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	Energy Purchasing Corporation	Gulf Coast Economic Development Corporation	Local Development Corporation
Primary government:										
Governmental activities:										
General government	\$ 5,148,359	\$ (2,202,453)	\$ 2,556,832		\$ (389,073)		\$ (389,073)			
Workforce programs	272,541,639	576,606		\$ 273,092,625	(25,620)		(25,620)			
Transportation	21,709,747	792,716		21,769,787	(732,676)		(732,676)			
Community and environmental	15,894,238	264,696		16,049,872	(109,062)		(109,062)			
Criminal justice	1,168,042	64,903		1,200,633	(32,312)		(32,312)			
Aging services	10,920,823	210,848		10,918,671	(213,000)		(213,000)			
Regional Excellence Corporation	145,893			71,804	(74,089)		(74,089)			
Gulf Coast 911 Regional District	2,932,655			3,575,101	642,446		642,446			
Total governmental activities	<u>330,461,396</u>	<u>(292,684)</u>	<u>2,556,832</u>	<u>326,678,493</u>	<u>(933,386)</u>		<u>(933,386)</u>			
Business-type activities-										
Cooperative purchasing	3,243,125	292,684	4,898,445			\$ 1,362,636	1,362,636			
Total business-type activities	<u>3,243,125</u>	<u>292,684</u>	<u>4,898,445</u>			<u>1,362,636</u>	<u>1,362,636</u>			
Total primary government	<u>\$ 333,704,521</u>	<u>\$ -</u>	<u>\$ 7,455,277</u>	<u>\$ 326,678,493</u>	<u>(933,386)</u>	<u>1,362,636</u>	<u>429,250</u>			
Component units:										
Energy Purchasing Corporation	82,805		141,382					\$ 58,577		
Gulf Coast Economic Development Corporation	179,507			201,701					\$ 22,194	
Local Development Corporation	454,184		481,211							\$ 27,027
Total component units	<u>\$ 716,496</u>		<u>\$ 622,593</u>	<u>\$ 201,701</u>				<u>\$ 58,577</u>	<u>\$ 22,194</u>	<u>\$ 27,027</u>
General revenues:										
Interest income					331,766		331,766			
Miscellaneous income					395,808		395,808			
Transfers					175,000	(175,000)				
Total general revenues and transfers					902,574	(175,000)	727,574	-	-	-
Change in net position					(30,812)	1,187,636	1,156,824	58,577	22,194	27,027
Net position - beginning					18,586,016	15,045,379	33,631,395	98,483	1,577,383	2,654,283
Net position - ending					<u>\$ 18,555,204</u>	<u>\$ 16,233,015</u>	<u>\$ 34,788,219</u>	<u>\$ 157,060</u>	<u>\$ 1,599,577</u>	<u>\$ 2,681,310</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General	Grant Fund	Regional Excellence Corporation	Gulf Coast 911 Regional District	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 30,235,634	\$ 5,910,613	\$ 442,557	\$ 2,341,804	\$ 38,930,608
Investments	8,259,360				8,259,360
Receivables	765,796	28,507,813	22,704		29,296,313
Due from other funds	2,522,226	16,233,415			18,755,641
Due from component unit	512,629				512,629
Prepaid items	210,135				210,135
Total assets	<u>\$ 42,505,780</u>	<u>\$ 50,651,841</u>	<u>\$ 465,261</u>	<u>\$ 2,341,804</u>	<u>\$ 95,964,686</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	727,786	3,418,984	185,250		4,332,020
Unearned revenue	96,478	20,273,850			20,370,328
Due to grantee agencies		18,910,082			18,910,082
Due to other funds	31,243,932	1,655,530		691,696	33,591,158
Total liabilities	<u>32,068,196</u>	<u>44,258,446</u>	<u>185,250</u>	<u>691,696</u>	<u>77,203,588</u>
Fund balance-					
Nonspendable	210,135				210,135
Unassigned	10,227,449				10,227,449
Restricted for:					
EPA RLF Program		6,393,395			6,393,395
Regional Excellence Corporation			280,011		280,011
Gulf Coast 911 Regional District				1,650,108	1,650,108
Total fund balance	<u>10,437,584</u>	<u>6,393,395</u>	<u>280,011</u>	<u>1,650,108</u>	<u>18,761,098</u>
Total liabilities and fund balance	<u>\$ 42,505,780</u>	<u>\$ 50,651,841</u>	<u>\$ 465,261</u>	<u>\$ 2,341,804</u>	<u>\$ 95,964,686</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	807,349
Compensated absences of governmental activities are not due and payable in the current period and, therefore, are not reported in the funds	(984,192)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds-capital leases	<u>(29,050)</u>
Net position of governmental activities	<u>\$ 18,555,205</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, 2018

	<u>General</u>	<u>Grant Fund</u>	<u>Regional Excellence Corporation</u>	<u>Gulf Coast 911 Regional District</u>	<u>Total Governmental Funds</u>
Revenues					
Interest income	\$ 331,766				\$ 331,766
Membership dues	299,061				299,061
Interlocal contracts	729,253				729,253
Data services and imaging	1,528,519				1,528,519
Miscellaneous income	395,808				395,808
From grantor agencies		\$ 323,031,588	\$ 71,804	\$ 3,575,101	326,678,493
Total revenues	<u>3,284,407</u>	<u>323,031,588</u>	<u>71,804</u>	<u>3,575,101</u>	<u>329,962,900</u>
Expenditures					
Current:					
General government	2,851,529				2,851,529
Workforce programs		272,976,282			272,976,282
Transportation		22,335,672			22,335,672
Community and environmental		16,173,588			16,173,588
Criminal justice/Homeland security		1,187,393			1,187,393
Aging services		11,088,653			11,088,653
Regional Excellence Corporation			145,893		145,893
Gulf Coast 911 Emergency District				2,932,655	2,932,655
Capital outlay:					
General government	55,206				55,206
Debt service:					
Principal	40,118				40,118
Interest	859				859
Total expenditures	<u>2,947,712</u>	<u>323,761,588</u>	<u>145,893</u>	<u>2,932,655</u>	<u>329,787,848</u>
Excess (deficiency) of revenues over expenditures	<u>336,695</u>	<u>(730,000)</u>	<u>(74,089)</u>	<u>642,446</u>	<u>175,052</u>
Other Financing Sources (Uses)					
Transfers in (out)	172,606	2,394			175,000
Total other financing sources & (uses)	<u>172,606</u>	<u>2,394</u>	<u>-</u>	<u>-</u>	<u>175,000</u>
Change in fund balance	509,301	(727,606)	(74,089)	642,446	350,053
Fund balance - beginning	<u>9,928,283</u>	<u>7,121,000</u>	<u>354,100</u>	<u>1,007,662</u>	<u>18,411,045</u>
Fund balance - ending	<u>\$ 10,437,584</u>	<u>\$ 6,393,394</u>	<u>\$ 280,011</u>	<u>\$ 1,650,108</u>	<u>\$ 18,761,098</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, 2018

Net change in fund balances-total governmental funds	<u>\$ 350,053</u>
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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	128,747
Depreciation expense	<u>(491,650)</u>
Excess of depreciation over capital outlay expense	<u>(362,903)</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 -

Increase in compensated absences	(58,079)
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Principal payment for capital lease in 2018	<u>40,118</u>
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Change in net position of governmental activities	<u><u>\$ (30,811)</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, 2018

	Cooperative Purchasing
ASSETS	
Current assets	
Accounts receivable	\$ 1,570,195
Due from general fund	14,835,517
Total current assets	<u>16,405,712</u>
Noncurrent assets	
Property & equipment	194,196
Less accumulated depreciation	<u>(194,196)</u>
Total noncurrent assets	<u>-</u>
Total assets	<u>16,405,712</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	20,478
Unearned revenues	152,219
Total current liabilities	<u>172,697</u>
Total liabilities	<u>172,697</u>
NET POSITION	
Unrestricted	16,233,015
Total net position	<u><u>\$ 16,233,015</u></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, 2018

	Cooperative Purchasing
REVENUES	
Charges for services	\$ 4,898,445
Total revenues	4,898,445
OPERATING EXPENSES	
Personnel and benefits	2,817,211
Consultant and contract services	107,205
Equipment rental and leases	34,031
Lease of office space	206,529
Travel	52,378
Other	318,455
Total expenses	3,535,809
Operating Income	1,362,636
Transfers	(175,000)
Change in net position	1,187,636
Net position - beginning	15,045,379
Net position - ending	\$ 16,233,015

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	<u>Cooperative Purchasing</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,776,236
Cash payments to employees for services	(2,817,211)
Cash payments to suppliers for goods and services	(172,632)
Cash payments for operating expenses	(611,393)
Cash provided (used) by operating activities	<u>175,000</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to general fund	(175,000)
Net cash used by noncapital financing activities	<u>\$ (175,000)</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)	\$ 1,362,636
Change in assets and liabilities:	
Decrease (increase) in customer receivable	98,476
Decrease (increase) in interfund receivable	(1,203,548)
Increase (decrease) in accounts payable	(65,427)
Increase (decrease) in unearned revenue	(17,137)
Net cash provided (used) by operating activities	<u>\$ 175,000</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018**

	Pension Plan Trust	Agency Fund
	Retirement Plan 2018	Area Emission Reduction Credit Organization 2018
ASSETS		
Cash		\$ 4,024,879
Investments- at fair value:		
Mutual funds	\$ 28,452,284	
Money market funds	4,442,973	
Total investments, at fair value	32,895,257	
Receivables:		
Notes receivables from participants	776,482	
Total receivables	776,482	
Total assets	33,671,739	4,024,879
LIABILITIES		
Due to Others		4,024,879
Employee forfeitures due to employer	64,085	
Total liabilities	64,085	\$ 4,024,879
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	\$ 33,607,654	

See accompanying notes to financial statements

**RETIREMENT PLAN FOR THE EMPLOYEES OF
HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2018**

	2018
ADDITIONS	
Contributions:	
Participants	\$ 1,263,961
Employer	1,083,712
Total contributions	<u>2,347,673</u>
Investment earnings:	
Net appreciation in the fair value of investments	(3,354,828)
Interest and dividends	1,939,010
Total net investment earnings	<u>(1,415,818)</u>
Total additions	<u>931,855</u>
DEDUCTIONS	
Benefit payments	4,694,786
Administrative expenses	1,841
Total deductions	<u>4,696,627</u>
Change in net position	(3,764,772)
Net position - beginning	<u>37,372,426</u>
Net position - ending	<u><u>\$ 33,607,654</u></u>

See accompanying notes to financial statements.

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HOUSTON-GALVESTON AREA COUNCIL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 five component units, the H-GAC Energy Purchasing Corporation, the Houston-Galveston Local Development Corporation, the Gulf Coast Economic Development Corporation, the Corporation for Regional Excellence and the Gulf Coast 9-1-1 Regional District. 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.

On February 16, 2016 the Houston-Galveston Area Council Board of Directors established the Gulf Coast Regional Emergency Communications District

(“GCRECD”) as permitted under Chapter 772, Subchapter H, of the Texas Health and Safety Code. The District is governed by a Board of Managers consisting of at least one member from each county within the district, and each Board member serves conterminously as members of the H-GAC Board of Directors. The District is a political subdivision of the State of Texas and carries out essential governmental functions by providing high quality 9-1-1 emergency communications services to the seven participating jurisdictions within the District. Those participating counties include Brazoria, Chambers, Colorado, Liberty, Matagorda, Walker, Waller, and Wharton counties and all cities therein, except for any city served by another emergency communications district. The District is supported by mandatory fees charged and remitted from communication companies in the jurisdictions such as telephone companies and voice over internet providers, and revenues are used exclusively to provide support for the regional 9-1-1 system in the participating counties. The District 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. H-GAC has primary responsibility for the Corporation’s assets including its cash assets and the use of those assets benefits the constituency that H-GAC serves. Additionally, the EDC has signed a management agreement with the H-GAC 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 the non-fiduciary activities of the primary government. Inter-fund services provided and used are not eliminated in the process of consolidation. 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 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 based on 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 *Gulf Coast Regional 9-1-1 District* is a blended component unit established to support 9-1-1 emergency communications services to the seven participating jurisdictions within the District. The District'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 H-GAC will fund outlays for a particular purpose from both restricted and unrestricted resources. 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 applied. It is H-GAC'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, H-GAC considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, H-GAC 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 H-GAC 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.

H-GAC 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 pays 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. The balance of the accrued vacation at the end of the year is due within one year since the usage of the vacation for the year exceeds the balance.

Balance			Balance	Due Within
<u>12/31/2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2018</u>	<u>One Year</u>
\$ 926,113	\$ 1,061,107	\$ 1,003,028	\$ 984,192	\$ 984,192

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 and the Uniform Guidance (2 CFR 200). 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 - H-GAC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All investments of H-GAC are Level 1 and reflect quoted prices at year end. Additionally, 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 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 be held in a safekeeping account subject to the control and custody of H-GAC.
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	Discount Note Money Market	Certificate of Deposits	Mutual Funds	Totals
Governmental Funds:					
General	\$30,235,634	\$ 4,198,142	\$ 4,061,218		\$ 38,494,994
Grant Fund	5,910,613	-	-		5,910,613
Regional Excellence Corporation	442,557	-	-		442,557
Gulf Coast 9-1-1 Regional District	2,341,804	-	-	-	2,341,804
Total Governmental Funds	38,930,608	4,198,142	4,061,218	-	47,189,968
Fiduciary Funds	\$ -	4,442,973		\$28,452,284	32,895,257
Discretely Presented Component Units:					
Energy Purchasing Corporation	207,411	-	-		207,411
Gulf Coast Economic Dev Corp	534,074	-	-		534,074
Local Development Corporation	2,602,940	-	309,285	-	2,912,225
Total Component Units	3,344,425	-	309,285	-	3,653,710
Total Reporting Entity	<u>\$42,275,033</u>	<u>\$ 8,625,217</u>	<u>\$ 4,370,503</u>	<u>\$28,452,284</u>	<u>\$ 83,738,935</u>

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:

	Amount	Weighted Average Maturity (Days)	Credit Rating
General Fund	\$8,259,360	143	AAA
Fiduciary Fund	\$32,895,257	26	AAA

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, 2018, 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, 2018:

	Interfund Receivables	Interfund Payables
General Fund	\$ 2,522,226	\$ 31,243,932
Grant Fund	16,233,415	1,655,530
Gulf Coast 911 Regional District		691,696
Enterprise Fund	14,835,517	
Total	<u>\$ 33,591,158</u>	<u>\$ 33,591,158</u>

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 172,606	
Grant Fund	2,394	
Enterprise Fund		\$ 175,000
	<u>\$ 175,000</u>	<u>\$ 175,000</u>

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.

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	\$ 49,016	\$ -	\$ -	\$ -	\$ -	\$ -
Advances to subrecipients	-	-	-	-	-	-
Data imagery	16,850	-	-	-	-	-
Federal grants receivable	-	159,808	-	-	-	-
State grants receivable	-	25,313,746	-	-	-	-
Local grants receivable	-	3,034,259	-	-	-	-
Due from customers	50,096	-	1,570,195	-	162,020	30,584
Miscellaneous services	649,834	-	-	-	-	-
Gross Accounts Receivable	765,796	28,507,813	1,570,195	-	162,020	30,584
Less: Allowance for uncollected accounts	-	-	-	-	-	-
Accounts Receivable, Net	<u>\$ 765,796</u>	<u>\$ 28,507,813</u>	<u>\$ 1,570,195</u>	<u>\$ -</u>	<u>\$ 162,020</u>	<u>\$ 30,584</u>

All receivables are expected to be collected within one year.

6. CAPITAL ASSETS

Capital Assets are reported at historical cost, except for donated capital assets, which are recorded at their estimated acquisition value at the time of acquisition.

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

	December 31, 2017	Additions	Retirements	December 31, 2018
Governmental activities:				
Furniture, fixtures and equipment	\$4,711,918	\$ 73,541	\$ -	\$ 4,785,459
Capital leases	531,087	55,206	-	586,293
Less accumulated depreciation	<u>(4,072,752)</u>	<u>(491,651)</u>	-	<u>(4,564,403)</u>
	<u>\$1,170,253</u>	<u>\$(362,904)</u>	<u>\$ -</u>	<u>\$807,349</u>
Business-type activities:				
Furniture, fixtures and equipment	\$ 194,196	\$ -	\$ -	\$ 194,196
Less accumulated depreciation	<u>(194,196)</u>	<u>\$ -</u>	<u>-</u>	<u>(194,196)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Governmental Activities –	
General government	\$ 35,439
Workforce programs.....	141,963
Transportation	166,791
Community and Environmental	58,887
Criminal Justice & Homeland Security.....	45,552
Aging Services	<u>43,019</u>
Total Governmental Activities	491,651
Business-type activities –	
Cooperative purchasing.....	<u>0</u>
.....	<u>\$ 491,651</u>

7. UNEARNED REVENUE

As of December 31, 2018, unearned revenue was comprised of the following:

General Fund:	<u>\$ 96,478</u>
Grant Fund:	
Solid Waste.....	\$ 1,383,800
Low Income Repair Assistance.....	17,998,783
C&E/Local Contracts	261,878
Transportation/Local Contracts	265,489
Homeland Security Program	50,645
Human Services Local Program.....	<u>313,255</u>
Total Grant Funds.....	<u>\$20,370,328</u>
Enterprise Fund:	
Cooperative Purchasing.....	<u>\$ 152,219</u>

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

During 2018 the cooperative purchasing enterprise fund received remittance from participants in advance of performing services. These remittances, totaling \$152,219, 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 \$1,383,800 for this program.

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 2018. At year end, the advances in excess of expenditures totaled \$17,998,783.

H-GAC set aside \$50,645 of homeland security planning money to provide assistance in developing the required Homeland Security plan for Harris County and the other surrounding jurisdictions.

H-GAC receives matching participating funds from various local agencies to provide assistance in Transportation planning and Workforce programs. At year end, the matching funds totaled \$265,489 and \$313,255.

8. CAPITAL LEASES

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

	12/31/2017	Increase	Decrease	12/31/2018
Capital Lease	<u>\$ 69,169</u>	-	<u>\$ 40,119</u>	<u>\$ 29,050</u>

The following schedule presents future minimum lease payments as of December 31, 2018:

Fiscal Year	Amount
2019	\$23,464
2020	<u>5,799</u>
Minimum lease payments	29,262
Less amount representing interest	<u>(212)</u>
Present value of net minimum	
Lease payments	29,050
Less current portion of capital	
Lease obligation	<u>(23,464)</u>
Long-term portion of capital lease	<u>\$ 5,799</u>

The Houston-Galveston Area Council has entered into a capital lease agreement for a high-volume copier. This lease began on October 5, 2014 and will end on September 5, 2019. The lease allows H-GAC to retain ownership upon completion.

H-GAC entered into a capital lease agreement for a new color copier on June 1, 2017. This lease will end on May 31, 2020 with principal of \$41,746 at inception.

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 2018 was \$15,348,254. Retirement plan contributions were calculated using the gross salary amount for covered employees. H-GAC and its employees made contributions in 2018 of \$1,083,712 and \$1,263,961 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. Non-invested contributions are forfeited upon termination of employment and such forfeitures were used to pay a portion of H-GAC’s required contributions by \$64,085. In 2018 H-GAC had no liability to the plan at December 31, 2018.

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 December 2017, H-GAC renegotiated its lease space and acquired an additional 5,578 square feet bringing the total leased space to approximately 70,777 square feet at an annual base fee of \$1,645,731. The lease term for the new space began in January 2018 and expires in January 2025. The 65,199 square feet already under lease was extended to January 2025 as well. Included in the 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 \$20.00/square foot or \$1,415,540 for improvements to the leased space. A portion of these funds, \$170,000 would be available for renovation of the newly acquired space upon execution of the contract. The balance of the allowance would not be available until September 2019 with up to half of the allowance available for rent abatement. The schedule below reflects the lease terms. H-GAC has additional office space leased in satellite locations. These leases will terminate in February and April of 2020. The base amount for these leases is \$700 and \$1,736 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:

2019	1,709,334
2020	1,728,522
2021	1,761,910
2022	1,797,298
2023	1,832,687
2024-2025.....	<u>\$1,868,075</u>
Total minimum rental payments due.....	<u>\$10,697,826</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 2018 was \$1,674,963.

Required Matching Funds – H-GAC’s management is of the opinion that local (general fund) cash on hand and funds to be received in 2018 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 2018 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.

**HOUSTON-GALVESTON AREA COUNCIL
SUPPLEMENTARY SCHEDULE OF INDIRECT COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Actual	Budget	Percentage
PERSONNEL			
Indirect salaries	\$ 1,112,424	\$ 1,156,377	46.82 %
Employee benefits	536,744	557,952	22.59
	<u>1,649,168</u>	<u>1,714,329</u>	<u>69.41</u>
CONSULTANT AND CONTRACT SERVICES			
Consultant	25,094	2,500	1.06
Accounting and auditing	11,700	12,500	0.49
Other contract services	45,563	4,000	1.92
Legal Services	1,609	4,200	0.07
	<u>83,966</u>	<u>23,200</u>	<u>3.53</u>
EQUIPMENT			
Purchase, lease, rental or maintenance office furniture, fixtures and equipment	17,845	9,200	0.75
Depreciation	425,075	413,000	17.89
	<u>442,920</u>	<u>422,200</u>	<u>18.64</u>
LEASE OF OFFICE SPACE	<u>91,470</u>	<u>101,379</u>	<u>3.85</u>
TRAVEL	<u>23,790</u>	<u>20,700</u>	<u>1.00</u>
OTHER			
Consumable supplies	11,458	6,624	0.48
Software and Database	59,691	47,535	2.51
Communications	1,000	1,000	0.04
Postage	7,201	6,150	0.30
Subscriptions & memberships	93,049	87,500	3.92
Miscellaneous	35,103	27,793	1.48
	<u>207,502</u>	<u>176,602</u>	<u>8.73</u>
Indirect Carryforward	(122,683)	65,000	-5.16
TOTAL INDIRECT COSTS (A)	<u><u>\$ 2,376,133</u></u>	<u><u>\$ 2,523,410</u></u>	<u>100.0 %</u>
BASIS FOR ALLOCATION OF INDIRECT COSTS			
Chargeable salaries	\$ 15,348,254	\$ 16,283,960	
Employee benefits	7,405,528	7,842,355	
	<u>22,753,782</u>	<u>24,126,315</u>	
Less indirect salaries and Employee benefits	<u>(1,649,168)</u>	<u>(1,714,329)</u>	
TOTAL DIRECT SALARIES AND RELATED EMPLOYEE BENEFITS (B)	<u><u>\$ 21,104,614</u></u>	<u><u>\$ 22,411,986</u></u>	
ACTUAL INDIRECT COST RATE (A/B)	<u>11.26%</u>	<u>11.26%</u>	

HOUSTON-GALVESTON AREA COUNCIL
SUPPLEMENTARY SCHEDULE OF H-GAC EMPLOYEE BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Amount</u>	<u>Percentage</u>
RELEASED TIME TAKEN AND ACCRUED:		
Vacation	\$ 1,002,796	13.54 %
Holidays	797,161	10.76
Sick leave	497,123	6.71
Other	171,651	2.32
	<u>2,468,731</u>	<u>33.34</u>
BENEFIT PROGRAMS:		
Payroll taxes	1,460,060	19.72
Retirement plan	1,136,831	15.35
Insurance	2,283,350	30.83
Other benefits	4,953	0.07
	<u>4,885,194</u>	<u>65.97</u>
Benefit carryforward	<u>51,603</u>	<u>0.70</u>
TOTAL EMPLOYEE BENEFITS (A)	<u>\$ 7,405,528</u>	<u>100.00 %</u>
BASIS FOR ALLOCATION OF EMPLOYEE BENEFITS:		
Gross Salaries	\$ 17,816,985	
Less released time	<u>(2,468,731)</u>	
CHARGEABLE SALARIES (B)	<u>\$ 15,348,254</u>	
EMPLOYEE BENEFIT RATE (A/B)	<u>48.25 %</u>	

HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
DECEMBER 31, 2018

	Beginning 12/31/2017	Additions	Deletions	Ending 12/31/2018
ASSETS				
Cash	\$ 1,240,003	\$ 3,694,092	\$ (909,216)	\$ 4,024,879
Total Asset	<u>\$ 1,240,003</u>	<u>\$ 3,694,092</u>	<u>\$ (909,216)</u>	<u>\$ 4,024,879</u>
LIABILITIES				
Due to Others	\$ 1,240,003	\$ 3,694,092	\$ (909,216)	\$ 4,024,879
Total liabilities	<u>\$ 1,240,003</u>	<u>\$ 3,694,092</u>	<u>\$ (909,216)</u>	<u>\$ 4,024,879</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

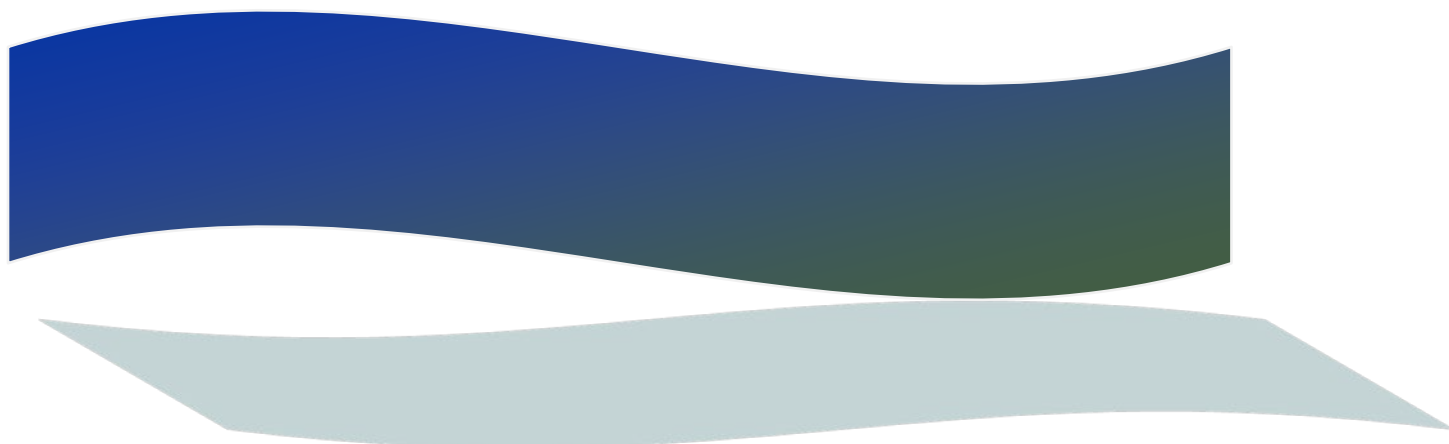
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

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.



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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Governmental activities										
Net Investment in Capital Assets	\$ 1,441,651	\$ 1,733,977	\$ 1,536,514	\$ 1,171,554	\$ 873,153	\$ 1,772,876	\$ 1,876,144	\$ 1,487,231	1,101,084	778,299
Restricted	-		2,905,476	5,411,485	7,831,657	7,714,688	8,032,742	7,907,727	8,482,762	8,323,514
Unrestricted	5,989,894	6,153,368	6,655,894	7,059,754	7,350,151	8,078,247	8,354,323	8,780,986	9,002,170	9,453,392
Total governmental activities net position	\$ 7,431,545	\$ 7,887,345	\$ 11,097,883	\$ 13,642,793	\$ 16,054,961	\$ 17,565,811	\$ 18,263,209	18,175,944	18,586,016	18,555,205
Business-type activities										
Net Investment in Capital Assets	\$ -	\$ 189,902	\$ 156,216	\$ 117,377	\$ 78,538	\$ 39,699	\$ 860	\$ -	\$ -	\$ -
Unrestricted	4,221,915	4,921,302	5,564,522	7,430,101	8,441,204	9,791,095	12,104,373	12,834,141	15,045,379	16,233,015
Total business-type activities net position	\$ 4,221,915	\$ 5,111,204	\$ 5,720,738	\$ 7,547,478	\$ 8,519,742	\$ 9,830,794	\$ 12,105,233	\$ 12,834,141	\$ 15,045,379	\$ 16,233,015
Primary government										
Net Investment in Capital Assets	\$ 1,441,651	\$ 1,923,879	\$ 1,692,730	\$ 1,288,931	\$ 951,691	\$ 1,812,575	\$ 1,877,004	\$ 1,487,231	\$ 1,101,084	\$ 778,299
Restricted	-		2,905,476	5,411,485	7,831,657	7,714,688	8,032,742	7,907,727	8,482,762	8,323,514
Unrestricted	10,211,809	11,074,670	12,220,416	14,489,855	15,791,355	17,869,342	20,458,696	21,615,127	24,047,549	25,686,407
Total primary government net position	\$ 11,653,460	\$ 12,998,549	\$ 16,818,621	\$ 21,190,271	\$ 24,574,703	\$ 27,396,605	\$ 30,368,442	\$ 31,010,085	\$ 33,631,395	\$ 34,788,220

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government	\$ 5,000,582	\$ 3,189,351	\$ 3,192,212	\$ 3,695,088	\$ 1,123,501	\$ 3,017,955	\$ 1,121,364	\$ 4,487,704	\$ 5,579,938	\$ 6,024,453
Workforce programs	220,604,671	303,355,993	226,221,149	180,735,826	185,089,084	183,974,199	205,095,889	209,009,097	232,028,757	273,118,245
Transportation	21,520,444	30,219,209	24,111,492	23,840,134	33,229,456	28,705,403	31,200,061	40,668,632	28,150,854	22,502,463
Community and environmental	7,902,348	4,563,591	11,156,076	8,016,851	10,310,254	22,778,574	23,021,245	10,732,671	13,305,656	16,158,934
Criminal justice	1,480,780	1,368,165	1,604,765	848,023	1,027,540	947,483	943,741	847,184	1,356,078	1,232,945
Emergency communications	5,918,726	2,929,196	7,290,785	3,898,273	3,242,332	4,881,827	4,632,362	931,365	-	-
Aging services	9,975,099	8,603,598	9,299,666	9,144,786	8,774,680	8,975,078	9,886,838	11,124,787	10,521,725	11,131,671
Total governmental activities expenses	272,402,650	354,229,103	282,876,145	230,178,981	242,796,847	253,280,519	275,901,500	277,801,440	290,943,008	330,168,711
Business-type activities:										
Cooperative purchasing	2,344,257	2,353,892	2,647,242	2,477,374	2,978,910	3,032,813	3,492,923	3,540,827	3,490,530	3,535,809
Total business-type activities expenses	2,344,257	2,353,892	2,647,242	2,477,374	2,978,910	3,032,813	3,492,923	3,540,827	3,490,530	3,535,809
Total primary government expenses	\$ 274,746,907	\$ 356,582,995	\$ 285,523,387	\$ 232,656,355	\$ 245,775,757	\$ 256,313,332	\$ 279,394,423	\$ 281,342,267	\$ 294,433,538	\$ 333,704,520
Program Revenues										
Governmental activities:										
Charges for services:										
Membership dues	327,683	335,139	323,690	332,635	395,538	402,918	388,039	394,258	395,539	299,061
Interlocal contracts	4,275,528	1,797,840	2,393,802	1,710,860	734,742	1,616,261	767,454	785,108	1,272,045	729,253
Data services and imaging	878,651	842,738	355,006	1,279,097	389,465	670,050	211,625	651,490	411,575	1,528,519
Operating grants and contributions	267,824,047	351,325,543	282,374,159	228,699,778	243,745,694	249,980,261	274,844,685	275,703,821	288,363,857	326,678,493
Total governmental activities program revenues	273,305,909	354,301,260	285,446,657	232,022,370	245,265,439	252,669,490	276,211,803	277,534,677	290,443,016	329,235,326
Business-type activities:										
Charges for services:										
Cooperative purchasing	3,882,653	3,243,181	3,256,776	4,304,114	3,951,174	4,843,865	5,767,362	4,269,735	5,801,768	4,898,445
Total business-type activities program revenues	3,882,653	3,243,181	3,256,776	4,304,114	3,951,174	4,843,865	5,767,362	4,269,735	5,801,768	4,898,445
Total primary government program revenues	\$ 277,188,562	\$ 357,544,441	\$ 288,703,433	\$ 236,326,484	\$ 249,216,613	\$ 257,513,355	\$ 281,979,165	\$ 281,804,412	\$ 296,244,784	\$ 334,133,771
Net (Expense)/Revenue										
Governmental activities	\$ 903,259	\$ 72,157	\$ 2,570,512	\$ 1,843,389	2,468,592	(611,030)	310,302	(266,764)	(499,993)	(933,385)
Business-type activities	1,538,396	889,289	609,534	1,826,740	972,264	1,811,052	2,274,439	728,908	2,311,238	1,362,636
Total primary government net expense	\$ 2,441,655	\$ 961,446	\$ 3,180,046	\$ 3,670,129	\$ 3,440,856	\$ 1,200,022	\$ 2,584,741	\$ 462,144	\$ 1,811,245	\$ 429,251
General Revenues and Other Changes in Net Position										
Governmental activities:										
State financial assistance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-			
Interest income	17,511	42,374	70,482	14,668	158,039	15,741	22,290	14,189	58,491	331,766
Miscellaneous	288,404	341,270	522,311	696,854	(214,461)	1,606,138	364,809	165,314	751,573	395,808
Transfers in						500,000			100,000	175,000
Total governmental activities	\$ 305,915	\$ 383,644	\$ 592,793	\$ 711,522	\$ (56,422)	\$ 2,121,879	\$ 387,099	\$ 179,503	\$ 910,064	\$ 902,574
Business-type activities:										
Transfers out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (500,000)			\$ (100,000)	\$ (175,000)
Total Business-type activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (500,000)	\$ -	\$ -	\$ (100,000)	\$ (175,000)
Change in Net Position										
Governmental activities	\$ 1,209,174	\$ 455,801	\$ 3,163,305	\$ 2,554,909	\$ 2,412,168	\$ 1,510,849	\$ 697,398	\$ (87,264)	\$ 410,072	\$ (30,811)
Business-type activities	1,538,396	889,289	609,534	1,826,740	972,264	1,311,052	2,274,439	728,908	2,211,238	1,187,636
Total primary government	\$ 2,747,570	\$ 1,345,089	\$ 3,772,838	\$ 4,381,649	\$ 3,384,432	\$ 2,821,901	\$ 2,971,837	\$ 641,644	\$ 2,621,310	\$ 1,156,825

**Houston-Galveston Area Council
Fund Balances, Governmental Funds,
Last Ten Years**

(modified accrual basis of accounting)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General Fund										
Nonspendable	\$ 81,395	\$ 116,622	\$ 115,315	\$ 83,951	\$ 179,415	\$ 116,304	\$ 48,145	\$ 206,721	\$ 184,145	\$ 210,135
Unassigned	6,432,577	6,654,711	7,161,978	7,880,052	8,062,639	8,817,921	9,152,946	9,165,337	9,744,138	10,227,449
Total general fund	\$ 6,513,972	\$ 6,771,333	\$ 7,277,293	\$ 7,964,003	\$ 8,242,054	\$ 8,934,225	\$ 9,201,091	\$ 9,372,058	\$ 9,928,283	\$10,437,584
All Other Governmental Funds										
Restricted for:										
EPA RLF Program	\$ -		\$ 2,790,161	\$ 5,210,480	\$ 7,749,761	\$ 7,599,714	\$ 7,833,463	\$ 7,486,709	\$ 7,121,000	\$ 6,393,395
Regional Excellence Corporation	\$ 192,845	\$ 228,990	\$ 266,224	\$ 201,005	\$ 81,896	\$ 114,974	\$ 199,279	\$ 421,018	\$ 354,000	\$ 280,011
Gulf Coast 911 Regional District								\$ 300,418	\$ 1,007,662	\$ 1,650,108
Total all other governmental funds	\$ 192,845	\$ 228,990	\$ 3,056,385	\$ 5,411,485	\$ 7,831,657	\$ 7,714,688	\$ 8,032,742	\$ 8,208,145	\$ 8,482,662	\$ 8,323,514

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues										
Interest income	\$ 17,511	\$ 42,374	\$ 70,482	\$ 14,668	\$ 11,974	\$ 15,741	\$ 22,290	\$ 14,189	\$ 58,491	\$ 331,766
Membership dues	327,684	335,139	323,690	332,635	395,538	402,917	388,039	394,258	395,539	299,061
Interlocal contracts	1,852,880	1,797,840	2,393,802	1,710,860	734,742	1,616,261	767,454	785,108	1,272,045	729,253
Data services and imaging	878,651	842,738	355,006	1,279,097	389,465	670,050	211,625	651,490	411,575	1,528,519
Miscellaneous income	288,410	341,270	522,311	696,854	(214,461)	1,606,138	364,809	165,314	751,567	395,808
Operating grants and contributions	267,824,046	351,325,543	282,374,159	228,699,778	243,891,754	249,980,261	274,844,685	275,703,821	288,363,857	326,678,493
Total revenues	<u>271,189,182</u>	<u>354,684,904</u>	<u>286,039,450</u>	<u>232,733,892</u>	<u>245,209,012</u>	<u>\$ 254,291,369</u>	<u>\$ 276,598,902</u>	<u>\$277,714,180</u>	<u>\$291,253,074</u>	<u>\$329,962,900</u>
Expenditures										
General government	2,754,758	2,866,929	3,111,232	3,397,292	936,046	2,955,078	1,063,628	1,838,703	2,537,247	2,851,528
Workforce programs	220,546,495	303,505,280	226,130,967	180,661,303	185,067,235	183,838,987	204,963,753	208,854,509	231,869,701	272,976,282
Transportation	21,400,894	30,067,030	23,951,444	23,672,771	33,126,845	28,568,435	31,030,647	40,491,639	28,064,068	22,335,672
Community and environmental	8,176,308	4,529,900	11,075,539	7,926,066	10,227,572	22,704,646	22,958,676	10,680,269	13,253,886	16,173,588
Criminal justice	1,454,588	1,652,330	1,544,171	773,435	958,987	957,655	909,063	815,491	1,319,500	1,187,393
Emergency communications	5,910,612	2,912,647	7,290,076	3,876,498	3,219,814	4,868,627	4,613,624	928,918	-	-
Aging services	9,962,271	8,584,279	9,330,307	9,106,269	8,750,081	8,937,602	9,839,561	11,069,901	10,477,138	11,088,653
Regional excellence corporation	411,101	164,759	80,259	152,719	188,720	86,941	49,271	62,842	122,317	145,893
Gulf Coast 911 Emergency District								2,503,579	2,841,896	2,932,655
Debt service:										
Principal	43,329	28,106	26,762	23,732	10,767	13,206	15,880	26,286	34,993	40,119
Interest	9,428	6,542	4,085	1,397	380	1,125	2,727	2,079	1,486	859
Capital outlay	668,401	73,594	161,253	134,508	24,341	1,339,506	612,320	93,594	41,746	55,206
Total expenditures	<u>271,338,187</u>	<u>354,391,398</u>	<u>282,706,095</u>	<u>229,725,992</u>	<u>242,510,790</u>	<u>254,271,808</u>	<u>276,059,150</u>	<u>277,367,810</u>	<u>290,563,978</u>	<u>329,787,848</u>
Excess of revenues over (under) expenditures	<u>(149,005)</u>	<u>293,506</u>	<u>3,333,355</u>	<u>3,007,900</u>	<u>2,698,222</u>	<u>19,561</u>	<u>539,752</u>	<u>346,371</u>	<u>689,097</u>	<u>175,052</u>
Other Financing Sources (Uses)										
Capital leases	-	-	-	33,910	-	55,642	45,169	-	41,746	-
Total other financing sources (uses)										
Transfers in	100,000					500,000			100,000	175,000
Net change in fund balances	<u>\$ (49,005)</u>	<u>\$ 293,506</u>	<u>\$ 3,333,355</u>	<u>\$ 3,041,810</u>	<u>\$ 2,698,222</u>	<u>\$ 575,203</u>	<u>\$ 584,921</u>	<u>\$ 346,371</u>	<u>\$ 830,842</u>	<u>\$ 350,052</u>
Debt service as a percentage of noncapital expenditures	0.02%	0.01%	0.01%	0.01%	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%

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

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Executive										
Executive Director	4	4	4	4.5	4	4	4	4	4	4
Internal Audit	3	3	2	3.5	4	4	4	4	4	4
Finance Administration										
Finance	14	15.5	14	15	14	13	13	15	14	14
Human Resources										2
Office Services	4	4	5	5	4	7	8	7	8	5
Program Services										
Chief Operating Officer	2	2	2	1	1	2	3	3	8	6
Community and Environmental Planning	36.5	37.5	37	42.5	45.5	41	36	38.5	30	33
Data Services	13	12	12.5	15.5	16.5	20.5	20	23.5	23	22
Human Services	62	64	60	59	56	49	53.5	68.5	63	63
Public Services	35	40	38	30	32	31	28	30	29	37
Transportation	57.5	58	58	61	58	56.5	57	59	51	62
Total	231	240	232.5	237	235	228	226.5	252.5	234	252

Source: H-GAC

Ten Largest Non-Governmental Houston Area Employers

Rank	Company	2018
1	Walmart	34,000
2	H-E-B	26,956
3	Memorial Hermann Health System	26,011
4	Houston Methodist	22,247
5	The University of Texas MD Anderson Cancer Center	20,189
6	Kroger	17,188
7	McDonald's	16,100
8	United Airlines	14,084
9	Texas Children's Hospital	13,445
10	ExxonMobil Corp.	13,000

Sources: Houston Chronicle, 2018

<https://www.houstonchronicle.com/business/chron-100/>

COUNTY PROFILES

<u>Austin County</u>		<u>Brazoria County</u>	
Land Area (sq. miles)	653	Land Area (sq. miles)	1,386
Persons per Square Mile	45	Persons per Square Mile	255
County Seat	Bellville	County Seat	Angleton
Population (2017)	29,637	Population (2017)	353,828
Race		Race	
White	18,632	White	171,466
Black	2,588	Black	46,459
Asian	172	Asian	22,713
Hispanic	7,841	Hispanic	106,370
Two or More Races and Other	404	Two or More Races and Other	6,820
Households and Families (2017)		Households and Families (2017)	
Total households	11,021	Total households	117,088
Average Household Size	2.63	Average Household Size	2.86
Average family size	3.15	Average family size	3.41
Vital Statistics (2015)		Vital Statistics (2015)	
Marriages	173	Marriages	2,043
Divorces	107	Divorces	1,261
Births	347	Births	4,939
Male	164	Male	2,579
Female	183	Female	2,360
Deaths	272	Deaths	2,155
Unemployment Rate (02/2019)	3.8	Unemployment Rate (02/2019)	4.4

<u>Chambers County</u>		<u>Colorado County</u>	
Land Area (sq. miles)	599	Land Area (sq. miles)	963
Persons per Square Mile	67	Persons per Square Mile	22
County Seat	Anahuac	County Seat	Columbus
Population (2017)	40,283	Population (2017)	21,027
Race		Race	
White	27,126	White	11,933
Black	3,213	Black	2,566
Asian	450	Asian	125
Hispanic	8,843	Hispanic	6,151
Two or More Races and Other	651	Two or More Races and Other	252
Households and Families (2017)		Households and Families (2017)	
Total households	13,320	Total households	7,603
Average Household Size	2.93	Average Household Size	2.70
Average family size	3.44	Average family size	3.36
Vital Statistics (2015)		Vital Statistics (2015)	
Marriages	227	Marriages	117
Divorces	160	Divorces	45
Births	512	Births	265
Male	259	Male	134
Female	253	Female	131
Deaths	290	Deaths	256
Unemployment Rate (02/2019)	5.1	Unemployment Rate (02/2019)	3.6

<u>Fort Bend County</u>		<u>Galveston County</u>	
Land Area (sq. miles)	875	Land Area (sq. miles)	398
Persons per Square Mile	848	Persons per Square Mile	827
County Seat	Richmond	County Seat	Galveston
Population (2017)	741,958	Population (2017)	329,306
Race		Race	
White	252,066	White	190,092
Black	149,200	Black	42,167
Asian	145,904	Asian	10,790
Hispanic	180,136	Hispanic	79,846
Two or More Races and Other	14,652	Two or More Races and Other	6,411
Households and Families (2017)		Households and Families (2017)	
Total households	222,331	Total households	117,455
Average Household Size	3.17	Average Household Size	2.68
Average family size	3.60	Average family size	3.31
Vital Statistics (2015)		Vital Statistics (2015)	
Marriages	3,145	Marriages	1,876
Divorces	1,670	Divorces	1,026
Births	9,887	Births	4,219
Male	5,053	Male	2,190
Female	4,834	Female	2,029
Deaths	2,984	Deaths	2,675
Unemployment Rate (02/2019)	3.9	Unemployment Rate (02/2019)	4.5

<u>Harris County</u>		<u>Liberty County</u>	
Land Area (sq. miles)	1,729	Land Area (sq. miles)	1,160
Persons per Square Mile	2,670	Persons per Square Mile	70
County Seat	Houston	County Seat	Liberty
Population (2017)	4,617,041	Population (2017)	81,377
Race		Race	
White	1,398,676	White	53,020
Black	857,799	Black	8,021
Asian	325,556	Asian	412
Hispanic	1,962,239	Hispanic	18,554
Two or More Races and Other	72,771	Two or More Races and Other	1,370
Households and Families (2017)		Households and Families (2017)	
Total households	1,562,813	Total households	25,974
Average Household Size	2.87	Average Household Size	2.81
Average family size	3.62	Average family size	3.43
Vital Statistics (2015)		Vital Statistics (2015)	
Marriages	27,755	Marriages	431
Divorces	11,902	Divorces	243
Births	73,427	Births	1,133
Male	37,167	Male	580
Female	36,260	Female	553
Deaths	25,342	Deaths	765
Unemployment Rate (02/2019)	4.2	Unemployment Rate (02/2019)	5.5

<u>Matagorda County</u>		<u>Montgomery County</u>	
Land Area (sq. miles)	1,114	Land Area (sq. miles)	1,044
Persons per Square Mile	33	Persons per Square Mile	531
County Seat	Bay City	County Seat	Conroe
Population (2017)	37,117	Population (2017)	554,522
Race		Race	
White	16,440	White	372,931
Black	3,831	Black	25,645
Asian	653	Asian	15,464
Hispanic	15,690	Hispanic	130,057
Two or More Races and Other	503	Two or More Races and Other	10,425
Households and Families (2017)		Households and Families (2017)	
Total households	13,811	Total households	186,861
Average Household Size	2.63	Average Household Size	2.85
Average family size	3.41	Average family size	3.39
Vital Statistics (2015)		Vital Statistics (2015)	
Marriages	266	Marriages	3,350
Divorces	114	Divorces	1,791
Births	533	Births	7,336
Male	272	Male	3,767
Female	261	Female	3,569
Deaths	407	Deaths	3,623
Unemployment Rate (02/2019)	5.9	Unemployment Rate (02/2019)	3.8

<u>Walker County</u>		<u>Waller County</u>	
Land Area (sq. miles)	787	Land Area (sq. miles)	514
Persons per Square Mile	91	Persons per Square Mile	97
County Seat	Huntsville	County Seat	Hempstead
Population (2017)	71,701	Population (2017)	50,058
Race		Race	
White	40,511	White	21,580
Black	16,369	Black	12,437
Asian	801	Asian	458
Hispanic	12,902	Hispanic	14,856
Two or More Races and Other	1,118	Two or More Races and Other	727
Households and Families (2017)		Households and Families (2017)	
Total households	21,294	Total households	14,698
Average Household Size	2.45	Average Household Size	2.96
Average family size	3.16	Average family size	3.50
Vital Statistics (2015)		Vital Statistics (2015)	
Marriages	418	Marriages	345
Divorces	190	Divorces	142
Births	667	Births	592
Male	336	Male	318
Female	331	Female	274
Deaths	513	Deaths	305
Unemployment Rate (02/2019)	4.1	Unemployment Rate (02/2019)	4.2

<u>Wharton County</u>	
Land Area (sq. miles)	1,090
Persons per Square Mile	38
County Seat	Wharton
Population (2017)	41,634
Race	
White	18,690
Black	5,417
Asian	204
Hispanic	16,959
Two or More Races and Other	364
Households and Families (2017)	
Total households	15,224
Average Household Size	2.68
Average family size	3.33
Vital Statistics (2015)	
Marriages	242
Divorces	97
Births	595
Male	302
Female	293
Deaths	417
Unemployment Rate (02/2019)	3.6

Source: US Census Bureau, 2018
Texas Department of Health, 2015
Texas Workforce Commission, 2019
H-GAC, 2018

Note: Marriage and divorce data are from 2014

Total Population 1980-2018												
Geography	1980	1990	2000	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austin County	17,726	19,832	23,590	28,417	28,599	28,561	28,684	28,972	29,473	29,636	29,757	29,989
Brazoria County	169,587	191,707	241,767	313,166	319,159	324,284	329,986	337,698	345,617	353,778	362,700	370,200
Chambers County	18,538	20,088	26,031	35,096	35,687	36,498	37,362	38,290	39,068	40,247	41,399	42,454
Colorado County	18,823	18,383	20,390	20,874	20,806	20,726	20,721	20,705	20,929	21,030	21,228	21,217
Fort Bend County	130,962	225,421	354,452	585,375	606,063	624,926	652,050	684,345	715,067	743,303	766,136	787,858
Galveston County	195,738	217,396	250,158	291,309	295,576	301,053	306,614	313,426	321,003	328,822	334,304	337,890
Harris County	2,409,547	2,818,101	3,400,578	4,092,459	4,179,796	4,264,193	4,355,158	4,458,709	4,561,939	4,629,189	4,664,159	4,698,619
Liberty County	47,088	52,726	70,154	75,643	75,981	76,371	76,854	78,056	79,611	81,513	83,809	86,323
Matagorda County	37,828	36,928	37,957	36,702	36,684	36,553	36,518	36,501	36,775	37,076	36,811	36,552
Montgomery County	127,222	182,201	293,768	455,746	471,396	484,622	498,518	517,328	536,124	555,703	572,146	590,925
Walker County	14,618	14,675	16,809	15,507	15,641	15,571	15,665	15,836	16,012	15,848	15,618	15,673
Waller County	19,798	23,374	32,663	43,205	44,109	44,353	45,431	46,794	48,663	50,069	51,285	53,126
Wharton County	40,242	39,955	41,188	41,280	41,289	41,149	41,142	41,124	41,426	41,668	41,916	41,619
H-GAC 13 County Area	3,247,717	3,860,787	4,809,505	6,034,779	6,170,786	6,298,860	6,444,703	6,617,784	6,791,707	6,927,882	7,021,268	7,112,445
Texas	14,225,513	16,986,335	20,851,820	25,145,561	25,644,424	26,078,327	26,479,279	26,954,436	27,454,880	27,904,862	28,304,596	28,701,845

Data source: Census Bureau Population and Housing Units Estimates, 2018

Texas 2018 State Expenditures by County

Rank	County	Total	Inter-governmental Payments	Labor Costs	Public Assistance	Highway Construction	Operating Expenses	Capital Outlays	Miscellaneous
1	TRAVIS	\$ 15,186,181,744	\$ 703,587,697	\$ 7,276,997,378	\$ 5,546,353,441	\$ 365,021,148	\$ 324,002,139	\$ 62,139,597	\$ 908,080,344
2	HARRIS	\$ 14,632,070,585	\$ 4,510,683,463	\$ 1,721,779,548	\$ 6,576,561,258	\$ 1,207,817,461	\$ 244,362,862	\$ 95,813,387	\$ 275,052,607
3	DALLAS	\$ 10,755,408,497	\$ 2,959,459,341	\$ 2,231,904,341	\$ 3,651,576,646	\$ 757,957,239	\$ 397,225,335	\$ 80,359,205	\$ 676,926,388
4	BEXAR	\$ 7,400,990,501	\$ 2,076,791,885	\$ 856,750,382	\$ 3,960,950,877	\$ 251,711,904	\$ 94,633,239	\$ 17,750,179	\$ 142,402,034
5	TARRANT	\$ 4,744,317,291	\$ 1,952,473,122	\$ 524,016,607	\$ 1,875,204,253	\$ 185,973,376	\$ 67,323,037	\$ 9,353,367	\$ 129,973,529
6	HIDALGO	\$ 3,548,906,273	\$ 2,362,705,841	\$ 356,384,373	\$ 680,965,711	\$ 103,810,733	\$ 23,137,450	\$ 1,723,160	\$ 20,179,006
7	FORT BEND	\$ 3,238,915,402	\$ 714,002,383	\$ 253,274,239	\$ 2,168,587,322	\$ 53,743,917	\$ 12,444,444	\$ 3,231,879	\$ 33,631,219
8	EL PASO	\$ 2,659,012,202	\$ 1,420,918,117	\$ 357,400,190	\$ 705,655,465	\$ 121,540,822	\$ 22,688,445	\$ 2,153,932	\$ 28,655,230
9	NUECES	\$ 1,771,838,298	\$ 341,871,048	\$ 192,857,634	\$ 1,024,934,584	\$ 172,124,056	\$ 14,941,247	\$ 7,883,630	\$ 17,226,100
10	WILLIAMSON	\$ 1,626,740,974	\$ 293,353,262	\$ 870,685,591	\$ 221,981,784	\$ 111,666,373	\$ 89,856,831	\$ 8,233,291	\$ 30,963,843
16	MONTGOMERY	\$ 1,210,094,299	\$ 497,042,714	\$ 145,674,454	\$ 109,214,423	\$ 423,969,002	\$ 19,437,401	\$ 414,086	\$ 14,342,220
19	GALVESTON	\$ 1,056,812,223	\$ 398,410,199	\$ 373,597,766	\$ 194,815,200	\$ 38,658,843	\$ 6,722,503	\$ 18,411,093	\$ 26,196,619
24	BRAZORIA	\$ 639,586,294	\$ 375,154,553	\$ 128,945,640	\$ 98,920,307	\$ 9,247,434	\$ 9,849,092	\$ 1,013,375	\$ 16,455,893
31	WALKER	\$ 396,771,013	\$ 67,302,883	\$ 264,769,502	\$ 16,391,441	\$ 550,977	\$ 26,708,270	\$ 258,647	\$ 20,789,292
50	LIBERTY	\$ 210,565,471	\$ 113,345,549	\$ 34,643,712	\$ 47,330,980	\$ 9,870,358	\$ 1,832,212	\$ 13,500	\$ 3,529,161
80	WHARTON	\$ 110,684,446	\$ 66,106,336	\$ 17,117,973	\$ 10,812,545	\$ 2,262,131	\$ 9,963,266	\$ 1,067,197	\$ 3,354,997
86	WALLER	\$ 96,631,629	\$ 25,475,666	\$ 49,198,526	\$ 14,780,661	\$ 379,126	\$ 2,710,614	\$ 13,769	\$ 4,073,267
94	MATAGORDA	\$ 60,951,221	\$ 32,630,481	\$ 8,558,035	\$ 16,089,136	\$ 630,605	\$ 270,598	\$ 74,935	\$ 2,697,431
111	CHAMBERS	\$ 57,417,793	\$ 35,795,495	\$ 6,864,155	\$ 13,459,085		\$ 127,716	\$ 24,500	\$ 1,146,843
113	AUSTIN	\$ 53,984,291	\$ 29,816,309	\$ 13,247,427	\$ 8,138,115	\$ 13,170	\$ 604,240		\$ 2,165,030
138	COLORADO	\$ 36,107,628	\$ 15,319,062	\$ 8,403,033	\$ 9,564,535		\$ 1,726,217	\$ 393,000	\$ 701,781
Total Texas Counties		\$ 96,214,431,204	\$ 30,723,710,422	\$ 22,894,943,513	\$ 31,656,863,433	\$ 5,483,770,687	\$ 1,980,724,829	\$ 407,123,647	\$ 3,067,294,673
Total H-GAC Counties		\$ 21,800,592,296	\$ 6,881,085,093	\$ 3,026,074,009	\$ 9,284,665,007	\$ 1,747,143,023	\$ 336,759,436	\$ 120,729,368	\$ 404,136,360
% of Expenditures in the region		22.7%	22.4%	13.2%	29.3%	31.9%	17.0%	29.7%	13.2%

Data source: Texas Comptroller of Public Accounts, 2018

Texas 2018 State Expenditures by Council of Governments

Rank	Council of Governments	Total	Inter-governmental Payments	Labor Costs	Public Assistance	Highway Construction	Operating Expenses	Capital Outlays	Miscellaneous
1	Houston-Galveston Area	\$ 21,800,592,296	\$ 6,881,085,093	\$ 3,026,074,009	\$ 9,284,665,007	\$ 1,747,143,023	\$ 336,759,436	\$ 120,729,368	\$ 404,136,360
2	North Central Texas	\$ 19,733,484,487	\$ 7,013,972,607	\$ 3,621,817,967	\$ 6,226,018,702	\$ 1,264,804,795	\$ 541,509,257	\$ 101,669,867	\$ 963,691,292
3	Capital Area	\$ 18,152,424,313	\$ 1,368,461,300	\$ 8,716,039,427	\$ 5,864,516,952	\$ 693,317,357	\$ 444,723,861	\$ 80,235,533	\$ 985,129,884
4	Alamo Area	\$ 8,523,900,925	\$ 2,529,341,369	\$ 1,128,348,165	\$ 4,161,439,205	\$ 361,582,910	\$ 150,397,614	\$ 21,812,521	\$ 170,979,140
5	Lower Rio Grande Valley	\$ 4,927,143,155	\$ 3,303,033,160	\$ 542,884,517	\$ 914,382,695	\$ 108,792,402	\$ 29,065,405	\$ 1,805,170	\$ 27,179,807
6	Rio Grande	\$ 2,741,543,458	\$ 1,455,295,949	\$ 391,911,477	\$ 712,818,101	\$ 121,567,286	\$ 27,623,934	\$ 2,159,042	\$ 30,167,669
7	Coastal Bend	\$ 2,480,896,887	\$ 712,778,031	\$ 385,125,304	\$ 1,132,197,266	\$ 182,357,808	\$ 22,728,342	\$ 9,439,405	\$ 36,270,730
8	East Texas	\$ 2,095,011,352	\$ 902,356,172	\$ 527,558,487	\$ 461,924,191	\$ 107,949,001	\$ 43,995,762	\$ 3,232,521	\$ 47,995,218
9	Brazos Valley	\$ 1,690,688,586	\$ 270,338,400	\$ 986,098,014	\$ 109,891,732	\$ 144,685,641	\$ 63,152,374	\$ 19,196,453	\$ 97,325,971
10	South Plains	\$ 1,683,411,699	\$ 544,459,432	\$ 635,739,910	\$ 374,181,502	\$ 35,256,221	\$ 39,384,033	\$ 8,269,723	\$ 46,120,879
11	Central Texas	\$ 1,495,923,601	\$ 667,195,260	\$ 405,501,860	\$ 367,174,981	\$ 16,939,846	\$ 6,762,208	\$ 3,856,282	\$ 28,493,164
12	Panhandle	\$ 1,201,389,953	\$ 550,475,473	\$ 299,690,564	\$ 178,665,929	\$ 125,467,186	\$ 27,238,708	\$ 1,643,940	\$ 18,208,152
13	Heart of Texas	\$ 1,190,011,462	\$ 538,213,054	\$ 268,574,888	\$ 170,161,737	\$ 105,474,097	\$ 45,398,324	\$ 2,672,548	\$ 59,516,813
14	Deep East Texas	\$ 1,155,351,501	\$ 492,267,366	\$ 352,799,814	\$ 182,342,171	\$ 64,159,800	\$ 36,775,674	\$ 7,435,717	\$ 19,570,959
15	West Central Texas	\$ 1,062,672,836	\$ 408,490,661	\$ 328,813,019	\$ 197,867,360	\$ 62,712,591	\$ 18,939,646	\$ 3,558,338	\$ 42,291,221
16	South Texas	\$ 1,043,417,533	\$ 740,643,753	\$ 120,178,679	\$ 171,261,164	\$ 2,209,492	\$ 4,150,740	\$ 70,103	\$ 4,903,602
17	Permian Texas	\$ 979,331,006	\$ 378,497,720	\$ 186,951,605	\$ 302,859,295	\$ 78,039,104	\$ 17,315,130	\$ 1,339,276	\$ 14,328,874
18	South East Texas	\$ 900,029,911	\$ 398,915,970	\$ 243,737,145	\$ 208,960,941	\$ 4,950,945	\$ 14,058,983	\$ 7,244,849	\$ 22,161,079
19	Ark-Tex	\$ 883,317,809	\$ 390,392,616	\$ 131,060,183	\$ 150,576,704	\$ 142,608,091	\$ 58,622,435	\$ 1,340,735	\$ 8,717,047
20	Nortex	\$ 674,840,296	\$ 245,221,426	\$ 232,339,761	\$ 141,217,277	\$ 19,375,078	\$ 23,270,826	\$ 2,887,928	\$ 10,528,000
21	Concho Valley	\$ 471,959,985	\$ 189,517,632	\$ 138,796,823	\$ 75,736,103	\$ 45,976,917	\$ 8,041,329	\$ 3,138,697	\$ 10,752,484
22	Middle Rio Grande	\$ 460,151,261	\$ 312,460,794	\$ 63,868,406	\$ 72,933,927	\$ 4,088,265	\$ 3,018,151	\$ 11,162	\$ 3,770,557
23	Golden Crescent	\$ 443,997,622	\$ 185,313,815	\$ 91,453,510	\$ 108,423,547	\$ 37,161,899	\$ 13,850,959	\$ 297,050	\$ 7,496,843
24	Texoma	\$ 422,939,267	\$ 244,983,369	\$ 69,579,979	\$ 86,646,945	\$ 7,150,932	\$ 3,941,697	\$ 3,077,419	\$ 7,558,926
	Total for Council of Governments	\$ 96,214,431,204	\$ 30,723,710,422	\$ 22,894,943,513	\$ 31,656,863,433	\$ 5,483,770,687	\$ 1,980,724,829	\$ 407,123,647	\$ 3,067,294,673

Data source: Texas Comptroller of Public Accounts, 2018

Voter Registration
2006 - 2019 Primary Elections

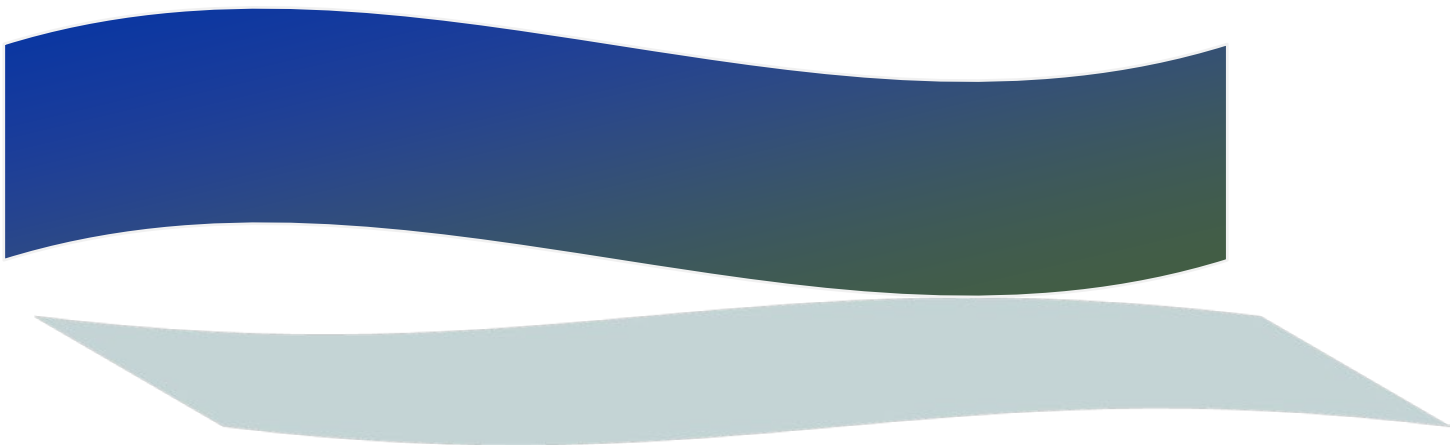
	Number of Precincts	Total Registered Voters													
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Austin	19	17,034	16,841	17,252	17,145	17,546	17,151	17,534	17,732	18,178	18,058	18,601	18,897	19,112	19,223
Brazoria	77	157,705	154,246	159,948	163,934	168,097	163,917	168,795	181,609	178,808	178,804	186,517	200,248	200,830	210,087
Chambers	13	20,450	21,164	21,053	21,930	22,707	22,862	23,316	23,729	24,338	24,481	25,479	26,688	27,299	28,589
Colorado	12	13,008	13,175	13,116	13,052	13,249	12,865	13,021	12,953	13,233	13,085	13,391	13,552	13,714	13,673
Fort Bend	142	256,461	256,537	267,583	290,019	300,777	302,223	315,207	332,199	347,188	359,046	379,254	412,810	413,446	428,679
Galveston	175	182,743	176,504	180,288	177,697	179,928	172,603	177,334	179,943	184,818	194,770	195,988	203,348	207,560	210,663
Harris	1,012	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	2,084,462	2,189,228	2,248,921	2,357,199
Liberty	36	44,359	43,354	43,253	42,505	42,863	41,111	41,949	41,025	41,263	40,251	41,130	43,619	43,109	44,285
Matagorda	18	20,890	20,284	20,761	20,540	20,893	20,131	20,625	20,201	20,577	20,265	20,826	20,941	21,338	21,745
Montgomery	89	215,878	214,406	224,321	235,052	243,027	238,707	246,768	257,799	268,147	273,352	290,259	306,564	318,611	327,629
Walker	16	28,190	27,658	28,343	29,119	29,507	28,356	29,169	28,983	29,578	29,044	30,179	31,334	31,835	32,572
Waller	21	24,709	25,861	27,045	28,787	29,792	27,037	27,706	27,751	28,288	28,344	29,237	30,351	30,984	31,952
Wharton	34	24,583	23,493	23,992	24,082	24,471	23,675	24,090	23,907	24,275	23,743	24,387	24,612	24,795	25,207
H-GAC Region	1,664	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	3,339,710	3,522,192	3,601,554	3,751,503

Source: Office of the Texas Secretary of State 2019

2018 General Elections- County						
County	Republican	Democratic	Libertarian	Total Votes	Total Voters	Turn Out
AUSTIN	9,009	1,897	123	11,029	19,406	56.83%
BRAZORIA	70,373	39,536	1,637	111,546	207,446	53.77%
CHAMBERS	12,505	2,460	203	15,168	28,063	54.05%
COLORADO	5,992	1,558	63	7,613	13,938	54.62%
FORT BEND	125,867	125,374	3,613	254,854	431,832	59.02%
GALVESTON	72,104	39,314	2,017	113,435	212,630	53.35%
HARRIS	559,819	628,804	18,094	1,206,717	2,338,460	51.60%
LIBERTY	16,527	3,816	203	20,546	43,981	46.72%
MATAGORDA	7,705	2,673	106	10,484	21,654	48.42%
MONTGOMERY	144,664	43,044	2,602	190,310	333,488	57.07%
WALKER	12,199	5,331	266	17,796	33,422	53.25%
WALLER	10,639	5,791	170	16,600	32,584	50.95%
WHARTON	9,472	3,332	107	12,911	25,132	51.37%
Source: Office of the Secretary of State						

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Single Audit Section



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REPORT OF INDEPENDENT AUDITORS 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, 2018, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated June 4, 2019.

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.

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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
June 4, 2019



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**REPORT OF INDEPENDENT AUDITORS 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 THE UNIFORM GUIDANCE 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 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, 2018. 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 federal and state statutes, regulations and the terms and conditions of its federal and state awards 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State of Texas *Uniform Grant Management Standards*. Those standards, the Uniform Guidance and the State of Texas *Uniform Grant Management Standards* 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.

Opinion on Each Major Federal and State 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, 2018.

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 the Uniform Guidance 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 the Uniform Guidance and the State of Texas *Uniform Grant Management Standards*. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
June 4, 2019

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 HOMELAND SECURITY				
	Passed Through the Texas Department of Public Safety			
PDMC-PL-06-TX-2016-013	Brazoria County Hazard Mitigation	97.047	27,367	0
PDMC-PL-06-TX-2016-011	Walker County Hazard Mitigation	97.047	11,653	0
PDMC-PL-06-TX-2016-010	Montgomery County Hazard Mitigation	97.047	28,977	0
PDMC-PL-06-TX-2016-006	Austin County Hazard Mitigation	97.047	12,107	0
PDMC-PL-06-TX-2016-008	Chambers County Hazard Mitigation	97.047	16,967	0
PDMC-PL-06-TX-2016-009	Liberty County Hazard Mitigation	97.047	15,928	0
PDMC-PL-06-TX-2016-012	Waller County Hazard Mitigation	97.047	11,497	0
	Total - Texas Department of Public Safety		124,496	0
	Passed through the General Land Office			
72188840	Hurricane Harvey Administration	97.048	46,453	0
72188840	Hurricane Harvey Direct Project Costs	97.048	1,309,216	0
72188840	Hurricane Harvey Program Management	97.048	555,844	0
	Total - Texas General Land Office		1,911,513	0
	Passed Through the Office of the Governor			
3707201	Reallocation Project - ALERRT Training Equipment	97.067	46,000	0
2992703	Homeland Security Grant Program - SHSP - 2017	97.067	137,070	0
2992704	Homeland Security Grant Program - SHSP - 2018	97.067	33,850	0
	Total - Office of the Governor		216,920	0
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			2,252,929	0
U.S. DEPARTMENT OF AGRICULTURE				
	SNAP Cluster			
	Passed Through the Texas Workforce Commission			
2818SNE000	SNAP E&T - 2018	10.561	624,067	624,067
2819SNE000	SNAP E&T - 2019	10.561	557,994	468,011
2818SNEA00	SNAP E&T - 2018	10.561	912,013	698,336
	Subtotal - SNAP Cluster		2,094,074	1,790,414
	Total - Texas Workforce Commission		2,094,074	1,790,414
TOTAL U. S. DEPARTMENT OF AGRICULTURE			2,094,074	1,790,414
U.S. DEPARTMENT OF EDUCATION				
	Passed Through the Texas Workforce Commission			
2816AELB07	Adult Education and Literacy	84.002A	12,395,118	12,066,264
2816AEL007	Adult Education and Literacy	84.002A	-3,332,664	-3,332,664
2818ALA000	Adult Education and Literacy	84.002A	6,011,591	5,706,562
	Subtotal - 84.002A		15,074,045	14,440,162
	Total - Texas Workforce Commission		15,074,045	14,440,162
TOTAL DEPARTMENT OF EDUCATION			15,074,045	14,440,162
U.S. DEPARTMENT OF ENERGY				
	Direct Programs:			
DE-EE0005979	Houston Zero Emission Delivery Vehicle Deployment	81.086	24,115	19,089
DE-EE0005978	Hydrogen Fuel-Cell Electric Hybrid Truck Demonstration	81.086	64,840	64,840
DE-EE0007411	Clean Cities Outreach Education and Performance Tracking	81.086	20,729	0
	Subtotal - 81.086		109,684	83,929
TOTAL DEPARTMENT OF ENERGY			109,684	83,929
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				

Passed Through the Texas Department of Aging and Disability Services				
539-16-0015-00001	Aging Title VII EAP - 2018	93.041	21,297	0
	Subtotal - 93.041		21,297	0
539-16-0015-00001	Aging Title VII OAG - 2018	93.042	78,913	0
	Subtotal - 93.042		78,913	0
539-16-0015-00001	Aging Title III, Part D - 2018	93.043	105,396	0
539-16-0015-00001	Aging Title III, Part D - 2019	93.043	25,500	0
	Subtotal - 93.043		130,896	0
Aging Cluster				
539-16-0015-00001	Aging Title III, Part B - 2018	93.044	1,999,373	623,442
539-16-0015-00001	Aging Title III, Part B - 2019	93.044	594,110	224,331
539-16-0015-00001	Aging Title III, Part C - 2018	93.045	1,933,181	1,550,863
539-16-0015-00001	Aging Title III, Part C - 2019	93.045	733,360	463,078
539-16-0015-00001	Aging NSIP - 2018	93.053	298,669	298,669
539-16-0015-00001	Aging NSIP - 2019	93.053	50,729	50,729
	Total - Aging Cluster		5,609,422	3,211,112
539-16-0015-00001	Aging Title III, Part E - 2018	93.052	676,407	0
539-16-0015-00001	Aging Title III, Part E - 2019	93.052	188,852	0
	Subtotal 93.052		865,259	0
539-16-0015-00001	Hurricane Harvey Disaster Relief	93.048	87,000	0
	Subtotal 93.048		87,000	0
539-16-0015-00001	ATRA-MIPPA Priority 2 - 2018	93.071	16,392	0
	Subtotal 93.071		16,392	0
539-16-0015-00001	Aging HICAP (04/01/17-03/31/18)	93.777	35,869	0
539-16-0015-00001	Aging HICAP (04/01/18-03/31/19)	93.777	70,290	0
	Subtotal - 93.777		106,159	0
	Total - Texas Department of Aging and Disability Services		6,915,338	3,211,112
TANF Cluster				
Passed Through the Texas Workforce Commission				
2818TAN000	TANF Choices - 2018	93.558	12,348,045	11,613,764
2819TAF000	TANF Choices - 2019	93.558	2,545,142	2,362,455
2818NCP000	TANF E&T - Noncustodial Parent Empl - 2018	93.558	488,643	416,582
2819NCP000	TANF E&T - Noncustodial Parent Empl - 2019	93.558	145,451	136,064
2816AELB07	Adult Education and Literacy	93.558	566,744	566,744
2818ALA000	Adult Education and Literacy	93.558	202,819	202,819
2818WPA000	Employment Services - 2018	93.558	206,233	206,233
	Total - TANF Cluster		16,503,077	15,504,661
CCDF Cluster				
2818CAA000	CC Attendance Auto Services - 2018	93.575	627,616	627,616
2819CAA000	CC Attendance Auto Services - 2019	93.575	228,135	228,135
2818CCQ000	Child Care Quality - 2018	93.575	2,579,224	2,579,224
2819CCQ000	Child Care Quality - 2019	93.575	800,385	800,385
2818CCF000	Child Care (BAPA) - 2018	93.596	26,641,851	26,641,851
2819CCF000	Child Care (BAPA) - 2019	93.596	6,669,984	6,669,984
2818CCM000	Child Care Local Initiatives - 2018	93.596	20,082,705	20,082,705
2819CCM000	Child Care Local Initiatives - 2019	93.596	5,970,225	5,970,225
2818CCF000	Child Care	93.575	53,573,606	52,601,384
2819CCF000	Child Care	93.575	21,206,054	21,007,587
	Total - CCDF Cluster		138,379,785	137,209,096
	Total - Texas Workforce Commission		154,882,862	152,713,757
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			161,798,200	155,924,869
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
CDBG Cluster				

Passed Through the General Land Office				
C717218	Community Development Block Grant - 2018	14.228	6,959	0
12-506-000-6719	CDBG - Disaster Recovery Program Non-Rental Housing Projects	14.228	202,290	0
12-505-000-6718	CDBG - IKE Admin Rental	14.228	107,445	0
12-505-000-6718	CDBG - IKE Multi Family Rental	14.228	10,715,179	10,715,179
12-506-000-6719	CDBG - IKE Rapid Housing	14.228	111	0
Total - General Land Office			<u>11,031,984</u>	<u>10,715,179</u>
Total - CDBG Cluster			<u>11,031,984</u>	<u>10,715,179</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>11,031,984</u>	<u>10,715,179</u>
U.S DEPARTMENT OF JUSTICE				
Passed Through the Office of the Governor				
2606706	CJD Juvenile Mental Health Project 2018	16.540	105,799	0
2606707	CJD Juvenile Mental Health Project 2019	16.540	770	0
Subtotal - 16.450			<u>106,569</u>	<u>0</u>
3386601	Elder and Vulnerable Adult Justice Program FY18	16.575	81,530	0
3386602	Elder and Vulnerable Adult Justice Program FY19	16.575	79,637	0
Subtotal - 16.575			<u>161,167</u>	<u>0</u>
Total - Office of the Governor			<u>267,736</u>	<u>0</u>
TOTAL U.S DEPARTMENT OF JUSTICE			<u>267,736</u>	<u>0</u>
U.S. DEPARTMENT OF LABOR				
Employment Services Cluster				
Passed Through Texas Veterans Commission				
VES 18-28	Disabled Veterans' Outreach Program	17.801	184,150	184,150
VES 19-28	Disabled Veterans' Outreach Program	17.801	66,835	66,835
VES 18-28	Local Veterans Employment Representative Program	17.804	78,922	54,053
VES 19-28	Local Veterans Employment Representative Program	17.804	28,643	20,429
Total - Texas Veterans Commission			<u>358,550</u>	<u>325,467</u>
Passed Through the Texas Workforce Commission				
2818RAG000	Resource Admin Grant - 2018	17.207	16,489	16,489
2818WCI000	Special Projects	17.207	6,928	6,928
2819WCI000	Special Projects	17.207	93,655	3,655
2818WPA000	Employment Services - 2018	17.207	1,599,080	1,181,594
Total - Texas Workforce Commission			<u>1,716,152</u>	<u>1,208,666</u>
Total - Employment Services Cluster			<u>2,074,702</u>	<u>1,534,133</u>
Passed Through the Texas Workforce Commission				
WIA Cluster				
2818WCI000	Special Projects	17.258	4,392	4,392
2816WOA000	WIA Adult Program - PY2016	17.258	9,766,601	9,034,080
2817WOA000	WIA Adult Program - PY2017	17.258	-747,056	0
2818WOA000	WIA Adult Program - PY2018	17.258	7,806,985	7,613,084
2816WOY000	WIA Youth - PY2016	17.259	366,097	0
2817WOY000	WIA Youth - PY2017	17.259	9,388,551	9,298,603
2818WOY000	WIA Youth - PY2018	17.259	3,326,146	3,225,976
2817WOR000	Rapid Response	17.278	98,669	0
2818WOR000	Rapid Response	17.278	21,625	9,650
2816WOD000	WIA Dislocated Worker - PY2016	17.278	-44,162	0
2817WOD000	WIA Dislocated Worker - PY2017	17.278	7,916,707	7,629,407
2818WOD000	WIA Dislocated Worker - PY2018	17.278	2,484,309	2,408,333
Total WIA Cluster			<u>40,388,864</u>	<u>39,223,525</u>
2818RAG000	Resource Admin Grant - 2018	17.225	5,496	5,496
2818REA000	Reemployment Services and Eligibility Assessment FY18	17.225	1,521,408	1,510,703
2819REA000	Reemployment Services and Eligibility Assessment FY19	17.225	167,812	159,694
Subtotal - 17.225			<u>1,694,716</u>	<u>1,675,893</u>
2817TRA000	Trade Act Services for Dislocated Workers - 2017	17.245	317,786	317,186

2818TRA000	Trade Act Services for Dislocated Workers - 2018	17.245	1,013,157	980,130
	Subtotal - 17.245		1,330,943	1,297,316
2818RAG000	Resource Admin Grant - 2018	17.273	1,451	1,451
	Subtotal - 17.273		1,451	1,451
2817NDW000	NEG - O&G	17.277	823,390	0
2817NDW001	Hurricane Harvey-NDW	17.277	9,422,225	0
2818NDW009	NDW UPSKILLING MACHINE OPERATIONS	17.277	3,137	0
	Subtotal - 17.277		10,248,752	0
2818WDR000	Working Women Resource Coordination	17.261	19,689	13,315
2818WDR001	Disability Respire Coordination	17.261	76,088	76,088
	Subtotal - 17.261		95,777	89,403
2817ATG000	Apprenticeship Texas Expansion Grant	17.285	95,664	0
	Subtotal - 17.285		95,664	0
	Total - Texas Workforce Commission		53,856,167	42,287,588
TOTAL U.S. DEPARTMENT OF LABOR			55,930,869	43,821,721
U.S. DEPARTMENT OF TRANSPORTATION				
	Passed Through the Federal Transit Administration			
TX-2016-015-00	Federal Transit Formula Grant - The Woodlands Township	20.507	1,317	0
	Subtotal - 20.507		1,317	0
	Highway Planning and Construction Cluster			
	Passed Through the Texas Department of Transportation			
0912-00-474 Task 1 & 2	Clean Air Action Program, Federal Highway Administration	20.205	296,483	0
0912-00-552 Task 1	Clean Cities/Vehicles - 2018	20.205	128,705	0
0912-00-487	Regional Incident Management (IMU/MAP)	20.205	2,268,216	2,238,923
0912-00-496	Clean Air Action Program, Federal Highway Administration 2017	20.205	970,368	0
0912-00-551 Task 2	Clean Cities/Vehicles Administration	20.205	129,428	0
0912-00-551 Task 1	Clean Cities/Vehicles Replacement of Alternative Fuels	20.205	785,765	785,765
0912-00-529 Task 1	Incident Management-Quick Clearance Towing	20.205	1,544,320	1,544,320
0912-00-529 Task 2	Incident Management-Quick Clearance Towing-Admin	20.205	572,701	0
0912-00-491	Livable Centers Planning Studies	20.205	336,478	0
0912-00-464	Commute Solutions Transit Pilot Project	20.205	92,345	92,345
TX-80-0023	Regionally Coordinated Transportation Planning	20.205	28,936	0
0912-00-549	Travel Demand Management	20.205	275	0
0912-00-494	Subregional Planning Initiatives Study	20.205	503,778	287,806
0912-00-508 Task 1 & 2	Clean Cities/Vehicles - 2016	20.205	14,249	14,247
0912-00-460 Task 1	Existing Commuter & Transit Pilot Project	20.205	546	546
0912-00-584 Task 1	Teens in the Drivers Seat	20.205	5,083	0
0912-00-584 Task 2	Youth Traffic Safety Education and Outreach	20.205	8,550	0
0912-00-495 Task 1	Ports Area Mobility Study	20.205	655,206	0
50-18XF0015	Administration - 2018	20.205	1,850,682	0
50-18XF0015	Data Development & Maintenance - 2018	20.205	2,117,064	0
50-18XF0015	Short Range Planning - 2018	20.205	607,211	0
50-18XF0015	Long Range Plan - 2018	20.205	1,740,963	0
50-17XF0015	Special Studies - 2018	20.205	10,736	0
50-19XF0015	Administration - 2019	20.205	852,622	0
50-19XF0015	Data Development & Maintenance - 2019	20.205	848,533	0
50-19XF0015	Short Range Planning - 2019	20.205	158,755	0
50-19XF0015	Long Range Plan - 2019	20.205	794,514	0
50-19XF0015	Special Studies - 2019	20.205	29,245	0
	Total - Highway Planning and Construction Cluster		17,351,757	4,963,952
	Highway Safety Cluster			
2018-HGAC-S-1YG-0071	DWI Selective Traffic Enforcement-2018	20.600	32,031	28,219
2019-HGAC-S-1YG-00115	DWI Selective Traffic Enforcement-2019	20.600	17,795	16,482
	Total - Highway Safety Cluster		49,826	44,701
	Total - Texas Department of Transportation		17,401,583	5,008,653

TOTAL U.S. DEPARTMENT OF TRANSPORTATION			17,402,900	5,008,653
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs:				
2A-83440901	DERA Revolving Loan Program - ARRA	66.039	6,711,977	15,071
2A-83440901-0	Heavy Duty Diesel Replacement	66.039	569,559	307,803
00F95401	Port of Houston Clean Diesel Funding Assistance	66.039	436,943	434,500
	Subtotal - 66.039		<u>7,718,479</u>	<u>757,374</u>
C9-99623623	Texas A&M Agrilife Extension Services	66.460	45,873	0
	Subtotal - 66.460		<u>45,873</u>	<u>0</u>
	Total - Direct Programs		<u>7,764,352</u>	<u>757,374</u>
Passed Through the Texas Commission on Environmental Quality				
582-14-42709 WO#11	TMDL BIG FY18	66.419	112,394	0
582-14-42709 WO#09	TMDL Basin 11 San Jacinto-Brazos Coastal Basin	66.419	157,010	0
582-14-42709 WO#10	TMDL Basin 13 Brazos-Colorado Coastal Basin	66.419	83,039	0
582-18-81222 WO#1	TMDL BIG FY19	66.419	35,594	0
582-18-81222 WO#3	TMDL Basin 13 Brazos-Colorado Coastal Basin FY19	66.419	20,436	0
582-18-81222 WO#4	TMDL Basin 11 San Jacinto-Brazos Coastal Basin FY19	66.419	70,745	0
582-18-81222 WO#2	TMDL BIG Creek FY19	66.419	7,142	0
	Subtotal - 66.419		<u>486,360</u>	<u>0</u>
582-18-80218	Water Quality Management Planning - 2018	66.454	69,040	0
582-19-90146	Water Quality Management Planning - 2019	66.454	42,255	0
	Subtotal - 66.454		<u>111,295</u>	<u>0</u>
582-18-80339	Designing for Impact - LID Implementation	66.456	24,363	0
582-15-50886	Trash Bash 2015-2016	66.456	4,676	0
582-19-90216	Trash Bash - GBEP	66.456	2,780	400
582-17-70286	GBEP - Westfork	66.456	171	0
582-17-70188	GBEP - CCMP	66.456	30,946	0
	Subtotal - 66.456		<u>62,936</u>	<u>400</u>
582-15-56349	Westfork, San Jacinto, & Clear Lake	66.460	115,903	0
582-18-80213	Coastal Communities Education Outreach	66.460	29,180	0
	Subtotal - 66.460		<u>145,083</u>	<u>0</u>
	Total - Texas Commission on Environmental Quality		<u>805,674</u>	<u>400</u>
Passed Through the Texas State Soil and Water Conservation Board				
15-10	Watershed Protection Plan - Cedar Bayou	66.460	100,163	0
	Subtotal - 66.460		<u>100,163</u>	<u>0</u>
	Total - Texas State Soil and Water Conservation Board		<u>100,163</u>	<u>0</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			8,670,189	757,774
TOTAL EXPENDITURES OF FEDERAL AWARDS - PRIMARY GOVERNMENT			<u>274,632,610</u>	<u>232,542,701</u>
DISCRETELY PRESENTED COMPONENT UNIT:				
U.S. DEPARTMENT OF COMMERCE				
19478987	Economic Development - Support for Planning Organizations	11.302	132,710	0
08-79-05234	Economic Development - Economic Recovery Manager	11.302	29,333	
08-79-05078	Economic Development - Disaster Recovery	11.302	10,783	0
	Economic Development Cluster			
08-69-04356	Economic Adjustment Assistance - Revolving Loan Fund	11.307	1,486,483	0
	Total - Economic Development Cluster		<u>1,486,483</u>	<u>0</u>
TOTAL U.S. DEPARTMENT OF COMMERCE			1,659,309	0
TOTAL EXPENDITURES OF FEDERAL AWARDS - DISCRETELY PRESENTED COMPONENT UNIT			<u>1,659,309</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS - REPORTING ENTITY			<u>276,291,919</u>	<u>232,542,701</u>

STATE PROGRAMS

PRIMARY GOVERNMENT:

OFFICE OF THE GOVERNOR-CRIMINAL JUSTICE DIVISION

1471915	Law Enforcement Training - 2018-2019	347,256	225,993
	Subtotal - Law Enforcement Training	347,256	225,993
TOTAL OFFICE OF THE GOVERNOR-CRIMINAL JUSTICE DIVISION		347,256	225,993

18-497-009-B238	Community Development Block Grant	131,865	131,865
	Subtotal - Community Development Block Grant	131,865	131,865

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Direct Programs:

582-18-80539	Solid Waste - 2018 - 2019	620,855	325,008
	Subtotal - Solid Waste	620,855	325,008

582-18-80290	Texas Clean Rivers - 2018-2019	840,484	126,371
	Subtotal - Clean Rivers	840,484	126,371

	Total - Direct Programs	1,461,339	451,379
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Passed Through Harris County

582-12-20273	Air Check Texas - 2017	7,434,692	6,676,272
	Total - Air Check Texas - Harris County	7,434,692	6,676,272

Passed Through Fort Bend County

582-12-20281	Air Check Texas - 2017	434,840	434,840
	Total - Air Check Texas - Fort Bend County	434,840	434,840

Passed Through Brazoria County

582-12-20280	Air Check Texas - 2017	432,562	384,415
	Total - Air Check Texas - Brazoria County	432,562	384,415

Passed Through Galveston County

582-12-20283	Air Check Texas - 2017	637,149	565,636
	Total - Air Check Texas - Galveston County	637,149	565,636

Passed Through Montgomery County

582-12-20282	Air Check Texas - 2017	702,908	251,557
	Total - Air Check Texas - Montgomery County	702,908	251,557

TOTAL TEXAS COMMISSION ON ENVIRONMENTAL QUALITY		11,103,490	8,764,099
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TEXAS DEPARTMENT OF AGING AND DISABILITY SERVICES

539-16-0015-00001	State General Revenue - 2019	104,083	104,083
539-16-0015-00001	OMB ALF Services - 2018	123,624	0
539-16-0015-00001	OMB ALF Services - 2019	21,096	0

TOTAL TEXAS DEPARTMENT OF AGING AND DISABILITY SERVICES		248,803	104,083
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TEXAS WORKFORCE COMMISSION

2818SNE001	SNAP E&T - 2018	627,185	627,185
2819SNE001	SNAP E&T - 2019	226,801	209,776
2818SNEA00	SNAP E&T - 2018	139,588	139,588
2818SNE000	SNAP E&T - 2018	61,076	61,076
2819SNE000	SNAP E&T - 2019	166,718	166,718
	Subtotal - SNAP E&T	1,221,368	1,204,343

2818RAG000	Resource Admin Grant - 2018	4,045	4,045
	Subtotal - Resource Administration Grant	4,045	4,045

2818TAN000	TANF Choices - 2018	1,660,791	1,660,791
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2819TAF000	TANF Choices - 2019	477,754	477,754
2818NCP000	TANF E&T - Noncustodial Parent Empl - 2018	223,244	223,244
2819NCP000	TANF E&T - Noncustodial Parent Empl - 2019	89,748	89,748
	Subtotal - TANF Choices	<u>2,451,537</u>	<u>2,451,537</u>
2818CCP000	Child Care DFPS - 2018	12,562,462	12,518,552
2819CCP000	Child Care DFPS - 2019	4,313,854	4,291,503
	Subtotal - Child Care DFPS	<u>16,876,316</u>	<u>16,810,055</u>
2816AELB07	Adult Education and Literacy	1,498,260	1,498,260
2818ALA000	Adult Education and Literacy	1,336,961	1,336,961
	Subtotal - AEL	<u>2,835,221</u>	<u>2,835,221</u>
2818CCF000	CCDF Child Care - 2018	7,731,562	7,731,562
2819CCF000	CCDF Child Care - 2019	1,088,111	1,088,111
2817CCC000	Child Care - Subsidized	1,154,930	1,154,930
2818CCM000	Child Care Local Match - 2018	102,442	102,442
	Subtotal - Child Care	<u>10,077,045</u>	<u>10,077,045</u>
TOTAL TEXAS WORKFORCE COMMISSION		<u>33,465,532</u>	<u>33,382,246</u>
U.S. ENDOWMENT FOR FORESTRY AND COMMUNITIES			
CE16-049	U.S. Endowment for Forestry and Communities	8,014	0
TOTAL U.S. ENDOWMENT FOR FORESTRY AND COMMUNITIES		<u>8,014</u>	<u>0</u>
TOTAL EXPENDITURES OF STATE AWARDS - PRIMARY GOVERNMENT		<u>45,304,960</u>	<u>42,608,286</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS - REPORTING ENTITY		<u>321,596,878</u>	<u>275,150,986</u>

HOUSTON-GALVESTON AREA COUNCIL

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE
AWARDS FOR THE YEAR ENDED DECEMBER 31, 2018**1 BASIS OF ACCOUNTING**

Expenditures reported on this schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87 where still applicable, and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance). Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior year. H-GAC has elected to use the negotiated indirect cost rate and not the 10% de minimum rate as allowed under the Uniform Guidance.

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	\$ 323,761,588
Add: Depreciation charged to grant programs	389,636
Add: Gulf Coast Economic Development Corporation federal expenditures	1,659,309
Add: EPA RLF reconciling items from notes 5 below	6,541,202
Less: In-Kind Expenditures	(7,251,717)
Less: Program Income	(145,336)
Less: Cash Match	(212,991)
Less: Expenditures funded by local grant revenues	(3,144,812)
Total Federal and State Schedule	<u>\$ 321,596,879</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 12/31/2018	\$ 1,104,261
Cash and investment balance at 12/31/2018	376,701
Administrative costs during the fiscal year	5,521
Unpaid principal of loans written off during the fiscal year	-
Total EDA Revolving Loan Fund Expenditures	<u>1,486,483</u>
Federal Participation Rate	<u>100%</u>
Total Federal Share of EDA Revolving Loan Fund Expenditures	<u>\$ 1,486,483</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 2018	\$ -
Ending balance of loans made in previous years	715,977
Administrative costs during the fiscal year	75,844
Cash and investment balance at 12/31/2018	5,910,613
Repayment of written off loan in 2018	<u>9,544</u>
Total EPA Revolving Loan Fund Expenditures	<u>6,711,977</u>
Federal Participation Rate	<u>100%</u>
Total Federal Share of EPA Revolving Loan Fund Expenditures	<u>\$ 6,711,977</u>

6 FEDERAL PROGRAM TOTALS

Some programs include awards received from multiple federal funding grantors

Texas Department of Agriculture	\$ 6,959
General Land Office	11,025,025
Total CFDA #14.228	<u>\$ 11,031,984</u>
Texas Workforce Commission	\$ 1,716,152
Texas Veterans Commission	358,550
Total Employment Service Cluster CFDA#17.207, 17.801, 17.804	<u>\$ 2,074,702</u>
Texas Commission on Environmental Quality	\$ 145,084
Total CFDA #66.460	<u>\$ 145,084</u>

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 for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	None

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
Aging Cluster	93.044/93.045/93.053
Federal Disaster Assistance Response and Recovery Programs Hurricane Harvey Administration, Direct Project Costs, and Program Management	97.048
Workforce Investment Act (WIA) National Emergency Grants National Dislocated Worker Grant (NDW) Oil and Gas National Dislocated Worker Grant (NDW) Hurricane Harvey National Dislocated Worker Grant (NDW) Upskilling Machine Operations	17.277
TANF Cluster	93.558
CCDF Cluster	93.575/93.596
Reemployment Services and Eligibility Assessment and Resource Administration Grant	17.225
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

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 for major state 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	Grant / Contract Number
Solid Waste	582-18-80539
TANF Choices and Employment & Training Noncustodial Parent Unemployment	2818TAN000 2819TAF000 2818NCP000 2819NCP000
Aging – State General Revenue and OMB ALF Services	539-16-0015-00001
Community Development Block Grant	18-497-009-B238
CCDF and DFPS Child Care	2818CCP000 2819CCP000 2818CCF000 2819CCF000 2817CCC000 2818CCM000
1. Dollar Threshold Considered Between Type A and Type B Programs	\$469,538
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.

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings.” The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit’s schedule of findings and questioned costs and
- All audit findings reported in the prior audit’s summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None noted.

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports.”

Corrective Action Plan - Not Applicable



Houston-Galveston Area Council

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Section E

Board Acknowledgement and Internal Control Weaknesses

MEETING MINUTES H-GAC BOARD OF DIRECTORS May 21, 2019

ATTENDANCE ROSTER

The following members of the Board of Directors of the Houston-Galveston Area Council attended all or a portion of the May 21, 2019 Board meeting:

Austin County Judge Tim Lapham
Brazoria County Commissioner Stacy Adams
Chambers County Commissioner Gary Nelson
Fort Bend County Commissioner Andy Meyers
Galveston County Judge Mark Henry
Harris County Judge Lina Hidalgo
Liberty County Judge Jay Knight
Matagorda County Judge Nate McDonald
Montgomery County Commissioner Charlie Riley
Walker County Commissioner Jimmy Henry
Waller County Judge Trey Duhon
Wharton County Judge Phillip Spenrath

City of Deer Park Councilman William "Bill"
Patterson
City of Friendswood Councilmember Sally
Branson
City of Houston Vice Mayor Pro Tem Jerry Davis
City of Huntsville Mayor Andy Brauninger
City of La Porte Councilman Bill Bentley
(Alternate)

City of Lake Jackson Councilmember Ralph Buster
Buell
City of League City Councilman Larry Millican
(Alternate)
City of Missouri City Council Member Floyd Emery
City of Pearland Mayor Tom Reid
City of Sugar Land Mayor Joe Zimmerman
City of Texas City Commissioner Phil Roberts

Home Rule Cities (Less than 25,000):
City of Bellaire Council Member Trisha Pollard
City of Dickinson Councilmember William King,
III

General Law Cities:
City of Meadows Place Mayor Pro Tem Terry
Henley
City of Waller Council Member Nancy Arnold

School Districts (Outside Houston ISD):
Trustee Rissie Owens, Huntsville ISD

The following members of the H-GAC Board of Directors were not marked in attendance at the May 21, 2019 Board meeting:

Colorado County Judge Ty Prause
Harris County Commissioner Rodney Ellis
City of Baytown Council Member Chris Presley
City of Conroe Councilman Seth Gibson

City of Galveston Mayor Jim Yarbrough
City of Houston Council Member Greg Travis
City of Pasadena Councilmember Cary Bass
City of Rosenberg Mayor William Benton

CALL TO ORDER

Board Chair, Brazoria County Commissioner Stacy Adams called the meeting of the Board of Directors to order at 10:05 a.m. on Tuesday, May 21, 2019 in Conference Room B at 3555 Timmons Lane in Houston and presided throughout. Chair Adams stated that a quorum was present.

1. INVOCATION

Chair Adams presented the invocation.

2. PLEDGES OF ALLEGIANCE

At the request of Chair Adams, Matagorda County Judge Nate McDonald led Board members in reciting the Pledges of Allegiance to the flags of the United States and the State of Texas.

3. PUBLIC COMMENT

City of Dickinson Councilmember William King, III recognized former Mayor of Manvel Delores Martin and Melissa Washington, General Land Office. Chair Adams recognized Matthew Conner with Congressman Michael McCaul's office, Jason Fuller from Senator Ted Cruz's office accompanied by three interns; Darren Little, Zakary Stern and Shawn Strange representing the General Land Office, City of Deer Park Councilmember Tommy Ginn, City of Bunker Hill Village Council Member Susan Schwartz, Ben De Leon from Senator John Cornyn's office, Montgomery County Judge Mark L. Keough and Wharton County Judge Phillip Spenrath recognized Larissa from Congressman Michael McCaul's office, who were in attendance in the audience.

Chair Adams explained that it was the custom at that time in the meeting to welcome any comments by the Public.

There were two public comments, Dr. Ilene Harper, Executive Director of Family Life & community Resource Center and Selah Tacconi, Executive Director of Galveston County Resource Crisis Center.

4. CONSENT AGENDA

Chair Adams called for the Consent Agenda. He asked if any member of the Board wished to remove an item from the consent agenda for special consideration; City of Sugar Land Mayor Joe Zimmerman moved approval of the consent agenda as presented. City of Dickinson Councilmember William King, III seconded the motion. Chair Adams called for any discussion or comments; hearing none, Chair Adams then called for a vote which resulted in unanimous approval by all members present.

The following items were acted on by approval of the consent agenda.

- a. **H-GAC Board of Directors Minutes April 16, 2019**—approved minutes of the April 16, 2019 Board Meeting.
- b. **FY 18-19 Solid Waste Management Grants**—authorized to contract with recommended applicants for FY 18-19 solid waste management funds, not to exceed \$65,000.
- c. **School Buses**—authorized contracts with the lowest responsible bidders for School Buses.
- d. **Emergency Medical and Rescue Equipment**—authorized contracts with the lowest responsible bidders for Emergency Medical and Rescue Equipment.

- e. **Clean Cities Program Agreement**—authorized to amend agreement with the U.S. Department of Energy for Clean Cities program activities; for addition of \$32,500 and for total contract amount not to exceed \$167,500.
- f. **Clean Vehicles Program - Agreements**—authorized agreements for acquisition of four vehicles; amount not to exceed \$663,284.
- g. **Regional Speed Data**—authorized to negotiate contract to provide speed data for all streets within the Houston-Galveston Regional Transportation Area with vendors in the order presented; amount not to exceed \$85,000.
- h. **Investment Report**—approved investment report.

5. **FINANCE AND BUDGET COMMITTEE**

a. **Monthly Financial Report**

Chair Adams recognized Wharton County Judge Phillip Spenrath, Chair of the H-GAC Finance and Budget Committee to present the report. Judge Spenrath reported that the Committee met with a quorum and considered several items. Judge Spenrath then called on H-GAC Chief Financial Officer Nancy Haussler to present the report. Mrs. Haussler reported on the financial status report ending April 2019. Mrs. Haussler reported that Cooperative Purchasing was doing well, the Energy Corporation was a little behind and the most notable item was federal grants in the transportation program, where we are behind primarily due to timing issues but expected to meet budget projection. Mrs. Haussler then recommended the report for approval. Wharton County Judge Phillip Spenrath moved approval of the report as presented. City of Waller Council Member Nancy Arnold seconded the motion. Chair Adams called for any discussion or comments; hearing none, he then called for a vote which resulted in unanimous approval by all members present.

6. **PLANS AND PROJECTS REVIEW COMMITTEE**

a. **State Homeland Security Program Grant Funding Fiscal Year 2019**

b. **Criminal Justice Funds Fiscal Year 2020**

c. **Economic Development Administration Recovery Grants**

Chair Adams recognized City of Houston Vice Mayor Pro Tem Jerry Davis. City of Houston Vice Mayor Pro Tem Jerry Davis reported that the Plans and Projects review Committee met with a quorum and discussed three actions items: State Homeland Security Program Grant Funding Fiscal Year 2019, Criminal Justice Funds Fiscal Year 2020 and Economic Development Administration Recovery Grants.

All items were approved by the committee unanimously. City of Houston Vice Mayor Pro Tem Jerry Davis moved approval of items 6a, 6b, and 6c. City of Huntsville Mayor Andy Brauninger seconded the motion. Chair Adams called for any discussion or comments; hearing none, he then called for a vote which resulted in unanimous approval by all members present.

7. **AUDIT COMMITTEE**

a. **External Quality Assessment**

Chair Adams recognized Liberty County Judge Jay Knight to present the report. Judge Knight stated that the committee met last month over conference call and a quorum was established. Judge Knight stated they took action to approve items A, B and C: External Quality Assessment, Internal Audit Annual Report for 2018 and the Internal Audit Plan. Judge Knight recognized H-

GAC Executive Director, Chuck Wemple. Mr. Wemple stated that there were five items under the Audit Committee agenda and the first three items, External Quality Assessment, Internal Audit Annual Report for 2018, and Internal Audit Plan 2019 dealt with the Internal Auditing function. The Audit Committee took action on the first three items to recommend approval by the Board. Mr. Wemple also stated that the External Quality Assessment was done using a peer review process to see if expanding or any improvement was required for the internal audit function. Moving from paper to paperless and tightening up the processes to monitor sub-recipients and group organization were some of the opportunities from the results of the External Quality Assessment. H-GAC Director of Audit, Charles Hill was working on recommendations from this process. Liberty County Judge Jay Knight moved approval of items 7a, 7b, and 7c. City of Friendswood Councilmember Sally Branson seconded the motion. Chair Adams called for any discussion or comments; hearing none, he then called for a vote which resulted in unanimous approval by all members present.

b. Internal Audit Annual Report For 2018

Judge Knight stated that the Internal Audit Annual Report for 2018 was done in-house by H-GAC Director of Audit, Mr. Charles Hill. Judge Knight recognized H-GAC Executive Director, Chuck Wemple. Mr. Wemple stated that Mr. Hill had put together a plan for each fiscal year to monitor those who received funding from H-GAC. This item was unanimously approved with a single motion in item A.

c. Internal Audit Plan For 2019

This item was unanimously approved with a single motion in item A.

d. Draft Comprehensive Annual Financial Report – Financial and Single Audit Section

The Chair recognized Nancy Haussler to report on this item. Auditors had given an unmodified opinion on the financial statement. H-GAC's governmental activities were \$9.4 million and Business-type activities were \$16.2, which totaled to \$25.6 million. Assets exceeded the liabilities by \$34 million, making H-GAC in a liquid position and would be able to meet the obligations. Mrs. Haussler stated that there was a change in the net position. For the Governmental activities, which includes both the General Fund and Grant Fund had a slight loss of \$30,000, but the Cooperative Purchasing program had an increase of \$1.1 million bringing the total to \$1.156 million. Mrs. Haussler also stated that year 2018 was a good year with the General fund of \$10 million. Under revenues, expenditures and changes in fund balance, there was a 5% increase in General fund, that brought it to \$509,301, but a negative \$727,606 for Grant fund due to timing issues. Regional Excellence Corporation had a negative \$74,089, but Gulf Coast 911 Regional District had a good year with \$642,446 bringing the total Governmental funds to \$350,052.

For the Single Audit section Mrs. Haussler recognized Lupe Garcia with Whitley Penn, engagement partner on H-GAC's Financial Statement Audit, Federal & State Single Audit and Audit of Retirement plan. Mr. Garcia had a positive audit experience through the audit process at H-GAC. No action was taken. This was for information only.

e. 2018 Employee Retirement Plan

Mrs. Haussler reminded the Board that H-GAC has a 401K plan, with a defined contribution plan and defined benefit plan. When employees leave H-GAC they would take the invested amount, along with the vested amount of match. H-GAC employees are required to

contribute 3% of their gross pay to the plan and H-GAC matches it at 7%. No action was taken. This was for information only.

8. TRANSPORTATION

a. H-GAC Planning Studies Bundle #1

Chair Adams recognized H-GAC Transportation Director Alan Clark to present the report. Mr. Clark reported that bundle #1 were planning activities for which additional matching funds were not required. He noted that this study is more regional in nature. The Intersection Safety Analysis which will be inviting local governments to submit candidates to find cost effective and timely ways to reduce collisions and accidents at intersections. Mr. Clark then requested authorization to enter into an Advance Funding Agreement with the Texas Department of Transportation in the amount of \$5,100,000, to fund the Houston-Galveston Area Council Planning Studies Bundle #1. City of Sugar Land Mayor Joe Zimmerman moved approval. Councilmember King seconded the motion. Chair Adams called for any discussion or comments; hearing none, he then called for a vote which resulted in unanimous approval by all members present.

b. H-GAC Planning Studies Bundle #2

Mr. Clark reported that the study was more traditional and geographic focused in nature. This was on a county and sub-regional level. There have been a series of continuing transportation planning conducted at Montgomery County Precinct 1. Another was in the Woodlands and some county wide continuation of this work. This study is to assist rapid change in growing areas and looking to find ways to relieve critical bottlenecks, and some new development of major facilities not just for serving the region but the state as well. An example would be 249 toll road and Grand Parkway in Liberty County. Mr. Clark then requested authorization to enter into an Advance Funding Agreement with the Texas Department of Transportation in the amount of \$950,000, to fund the Houston-Galveston Area Council Planning Studies Bundle #2. Liberty County Judge Jay Knight moved approval. City of Bellaire Council Member Trisha Pollard seconded the motion. Chair Adams called for any discussion or comments; hearing none, he then called for a vote which resulted in unanimous approval by all members present.

9. LEGISLATIVE COMMITTEE

a. Legislative Committee

Chair Adams recognized Judge Nate McDonald, Chair of the Legislative Committee, to present the report. Judge McDonald stated that the Legislative Committee had good discussion with a quorum and recognized H-GAC Director of Intergovernmental Relations Rick Guerrero. Mr. Guerrero stated that the legislative committee met with a quorum in the morning but did not have any action items. Mr. Guerrero provided an update and overview of the legislative session which ends on May 27, 2019. Mr. Guerrero reported that Comptroller Glenn Hegar announced revised revenue estimates to include \$500 million more in available funds. Mr. Guerrero informed members that the Texas House opted to delay consideration of the sales tax swap legislation which would increase the state sales tax to 7.25 percent. It was delayed until 2021. Mr. Guerrero mentioned they are monitoring about 100 bills at a programmatic level internally. Senate Bill 790 which simply eliminated the comptroller as a recipient of regional planning commission annual reporting and left the legislative budget board, the state auditor's office and the office of the governor had passed. Mr. Guerrero also stated that the Senate Bill 726 which was presented by Rep. Drew Darby outlined the authority for a county to leave one regional planning commission and join another. Senate Bill 29, by Rep. Shaheen which was regarding the expenditure on lobbying

activities, was amended several times on the floor and ultimately defeated in the House. This was a priority for Lieutenant Governor Dan Patrick and is expected to be re-introduced next session. Chair Adams stated that this item was for information only. No action was taken.

10. H-GAC ADVISORY COMMITTEE APPOINTMENTS

a. H-GAC 2019 Advisory Committee Appointments

Chair Adams requested approval of appointments to H-GAC advisory committees. City of Sugar Land Mayor Joe Zimmerman moved approval. Councilmember King seconded the motion. Chair Adams called for any discussion or comments; hearing none, he then called for a vote which resulted in unanimous approval by all members present.

11. RESOLUTION HONORING RETIRING BOARD MEMBER

a. Resolution Honoring Retiring Board Member – Terry Henley

Chair Adams requested approval of a resolution honoring the service to H-GAC and the region of City of Meadows Place Alderman Terry Henley. Council Member Arnold moved approval. Councilmember Sally Branson seconded the motion. Chair Adams called for any discussion or comments; hearing none, he then called for a vote which resulted in unanimous approval by all members present.

12. INFORMATION

a. 2018 End of Year Report

Chair Adams recognized H-GAC Executive Director, Chuck Wemple. Mr. Wemple stated that nearly 200 performance measures that H-GAC looked at as part of its annual budget and service plan were included in the end of year report 2018. The packet shared was organized by program. The Aging Program, Law Enforcement Training Program and Workforce Program had exceeded expectations due to receiving additional funding and staffs efficient and hard work. Juvenile Justice was one of the programs that did not meet the goal due to a timing issue. Mr. Wemple noted that this issue was looked into and would be corrected in the future. Mr. Wemple stated that H-GAC was looking to encourage their vendors to be active or not be part of H-GAC Buy Program, if they will not be generating sales and revenue to help local government. The item was for information only, no action was required.

13. EXECUTIVE DIRECTOR'S REPORT

a. H-GAC Spotlight – Together Against The Weather

H-GAC Executive Director, Chuck Wemple recognized H-GAC Outreach Coordinator Lauren Preston for the presentation. Ms. Preston announced the return of the Together Against The Weather Campaign. She stated that Together Against The Weather was created to help people with access and functional support needs to better plan and prepare for hurricanes. Ms. Preston stated that there was visual revamping of this campaign, but the message of the campaign is the same as before. The campaign emphasizes partnership with community organizations, service agencies, family members, and other trusted support systems that help motivate hurricane preparation. She stated that H-GAC had collaborated with emergency management officials, heard their concerns and incorporated their needs in this comprehensive campaign. She ended by stating that visiting the materials download portion of www.togetheragainstheweather.com would provide helpful videos, checklists, flyers and more. The item was for information only, no action was required.

b. Executive Director's Report

Mr. Wemple reported that H-GAC would be bringing the Regional Transportation Plan for 2045 next month. The plan would be going to the Transportation Policy Council for approval and acceptance towards the end of the month, then on to the Board for review. The Draft Comprehensive Annual Financial Report was shared so that everyone could understand the different categories and the cash flow needs for H-GAC and would be brought back to the Board in June for possible action.

14. ADJOURNMENT

Chair Adams noted that there being no further business to be considered by the Board, the meeting was adjourned at 11:14 a.m.

HOUSTON-GALVESTON AREA LOCAL DEVELOPMENT CORPORATION
CORPORATE MEMBERSHIP MEETING
MINUTES
May 7, 2019

The May 7, 2019 H-GALDC Corporate Membership Meeting was held at H-GAC, 3555 Timmons Lane, 2nd Floor, Conference Room B, Houston, TX. The meeting was called to order at 10:14 a.m. A quorum was present.

LDC Board and Members in attendance were: Richard Brown, Brandi Downey, Bridget Ross, Carolyn Gibson, John Isom, Salim Nathani, Charles Rushing, Dwight Sullivan.

Via Phone Conference: DC Dunham, Jackie Bryan

Absent: James Bridges, Brad Burttschell, Sarah Cerrone, Gary Henderson, Mike Hoskins, Sirisha Pillalamari, Larry Smith, Terri Stuart.

H-GAC and H-GALDC staff in attendance: Carrington Barfield, Ronnie Barnes, Shaun Downie, Omar Fortune, Timothy Oyewale, Isaac Perez, Judy Przyborski, Maria Soria

Welcome and Introductions: Interim President Dwight Sullivan welcomed everyone. Introductions were made.

Staff Report: Omar Fortune welcomed everyone and expressed appreciation to all those attending.

The following reports were distributed prior to the meeting – Status of Portfolio (highlighted yellow), Status of Portfolio Non-Current (highlighted blue), and Industry Comparison (highlighted green). We will continue to use this format for LDC reports. Status of Portfolio shows 140 active loans totaling \$85 million. H-GALDC receives \$30,000 monthly servicing fees. Prepaid loans mean no monthly servicing fees. Status of Portfolio Non-Current shows seven (7) delinquent loans, which averages about 2.5% of the portfolio. Not all on the report are delinquent. Berryhill was on deferral and is now making regular payments and will be removed from delinquency. We are working with another borrower, Wingate Inn, to help get him back on track. The others are being monitored. Industry Comparison Report shows 20% concentration in the hotel industry. With many loans prepaying, concentrations have shifted. H-GAC services a 13-county area. Although, H-GALDC services the entire state of Texas, there are 6 (six) counties in the H-GAC region with no loan activity. H-GALDC has active loans in 25 counties, with 90 active loans in Harris County. We are working on a business development strategy to reach out to the other communities. Businesses, referrals, banks, partners, SBDC's, SBA, etc. can help promote the LDC.

Isaac Perez updated the committee with current loan activity. Staybridge is a hotel deal that is currently in underwriting at Statesman. A \$1.5 million dance studio is in progress. The dance studio owner's previous location flooded in 2010. In 2017 he purchased land at a different site. We also have a number of potential projects that we are currently reviewing. A car wash refinance and expansion in Austin, a doctor's office, a pipe coating company referred by Carolyn Gibson, a grocery store expansion, and a barber shop. The barber shop owner has twenty (20)

years of experience and is working on a business plan. We are excited as we continue moving forward.

Salim Nathani suggests that we develop a simple loan status report to provide an overview of which stage each prospective loan is in.

Election of Board/Alternates: The LDC is governed by nine (9) board members and two or more (2+) alternate members, elected annually from the members of the H-GALDC Corporate Membership. These elected members serve as the LDC Board of Directors. Directors are elected to serve for one year and meet quarterly. Ballots were distributed prior to the meeting. The following were elected to serve on the 2019-2020 LDC Board of Directors:

Richard Brown	Salim Nathani
Jackie Bryan	Bridget Ross
Brandi Downey	Charles Rushing
DC Dunham	Dwight Sullivan
Carolyn Gibson	

John Isom, Waller Economic Development Corporation, was elected to serve as an Alternate Member.

Election of Officers: The following were elected to serve as officers:

Dwight Sullivan – President
Nominated by Dwight Sullivan, seconded by Carolyn Gibson
Carolyn Gibson – Vice President
Nominated by Carolyn Gibson, seconded by Dwight Sullivan
Jackie Bryan – Secretary/Treasurer
Nominated by Charles Rushing, seconded by Carolyn Gibson

Minutes of December 6, 2018: President Sullivan stated that the minutes of December 6, 2018 were distributed prior to the meeting. No comments or changes were noted. The minutes were approved as distributed.

Financial Report: Shaun Downey, H-GAC Finance Administrator, presented the LDC financials ending March 31, 2019. The income statement shows \$113,000 in revenues, with \$143,000 expenses, which leaves (\$29,000) fund balance. The balance sheet shows \$3 million in assets, with \$405,000 owed to H-GAC. It was moved by Dwight Sullivan and seconded by Carolyn Gibson to accept the financials as presented. Approved unanimously.

Approval of Contracts: Omar Fortune stated that H-GALDC currently has two (2) existing contracts/agreements with attorneys. We would like approval to add one more. Kevin Bowie is located in Houston. Rates are competitive to other two attorneys. When possible:

- New loans – Will be assigned to attorney contractors in an equitable manner
- Routine servicing - Will work with the attorney who closed the loan

It was moved by Dwight Sullivan; seconded by Salim Nathani to approve Kevin Bowie contract/agreement. Approved unanimously.

Board Acknowledgement Form: Omar Fortune reminded everyone to sign the Board Acknowledgement Form. LDC Board members are required to sign the Board Acknowledgement Form stating that they have read and understand Section §120.823 of the Federal Register; and acknowledge that they have received and read the H-GALDC 2018 Independent Loan Review. This is an SBA requirement. These items were distributed prior to the meeting.

The 2019 Annual Report is due to SBA by June 30, 2019. This report is more than 50% complete and will be ready before the SBA deadline. The H-GALDC Annual Report will be forwarded to SBA along with H-GAC Annual Audit.

One Loan Per Member: Omar Fortune stated the corporate members should connect the LDC to potential loan opportunities. We need engagement from each corporate member. The goal is to bring in one loan from each member annually. With increased participation, we will easily reach that goal.

Dwight Sullivan and Salim Nathini suggested the LDC be available for presentations and also members should be able to attend. Omar assured the LDC is available for presentations anytime.

Richard Brown mentioned that we should consider developing collateral for individual communities that highlights completed projects in those areas. He mentioned that it is easier to discuss new opportunities when we can point out successful, tangible projects.

Bridget Ross recalled an email from a contact regarding warehouse/office space for People Fund. She stated that this would be a good collaborative relationship and lead to additional partnerships. She stated that we should know and develop a standard checklist of processing documents, processing timeframes, and financial ratios, which can help to increase our efficiency. Bridget will work with the LDC to put the checklist together. Prairie View A&M University could also be a resource for small business loans by providing fair housing workshops.

Carolyn Gibson asked if there is any type of loan (NAICS codes) we should avoid. Ronnie Barnes suggested to concentrate on what is available in your area.

John Isom expressed interest in hotel projects. There are many opportunities in Waller and he invited LDC staff to visit.

Ronnie Barnes explained that H-GAC would like to leverage appointments with LDC using relationships with other departments. H-GAC has many available resources. Isaac Perez has been visiting other communities about our opportunities.

New Member Recruitment: Omar Fortune informed the members that there are currently eighteen (18) corporate members. H-GALDC Bylaws state that there can be twenty-seven (27) or more. We create new opportunities with each new member. Contact LDC staff know if you know anyone interested in serving as a corporate member.

Community Reinvestment Act Community Development Credits: The Community Reinvestment Act (CRA) requires the Federal Reserve and other federal banking regulators to encourage financial institutions to help meet the credit needs of the communities in which they do business, including low- and moderate-income neighborhoods. Banking institutions develop CRA credit reserves and look for ways to invest these dollars into local community development projects.

Ronnie Barnes stated we need to be looking for investments, ideas, and a program design to be effective. He suggested focusing CRA efforts around financial literacy for youth and entrepreneurship projects and indicated that we need to be a financial resource for as many things as we can be in the community. Ronnie will share additional information. Omar stated we can leverage other groups and departments within H-GAC.

Community Enhancement Grants: H-GALDC seeks to reestablish the Community Enhancement Grant project. Omar explained that, years ago, H-GALDC set aside funds for these grants. By recapitalizing the fund, we will engage local governments to support beautification and revitalization projects of their downtown and public spaces. These projects bring in new customers, which in turn, lead to new business prospects. We are asking for approval to use \$150,000 from our reserve funds to recapitalize the Community Enhancement Grant funding.

Ronnie Barnes will reach out in a couple of weeks for approval. Carolyn Gibson suggested to notify board members when grant funds are presented. She stated that street lamps in Bellville used this grant and it is a great program which enhances communities. Ronnie stated sixty (60) grants have been given in the past, totaling \$1.2 million. We will revisit and reach out after members have had a chance to review.

Local Development Corporation and Revolving Loan Fund Committee Merger Update: Omar Fortune announced that we will move forward with merging the Revolving Loan Fund (RLF) and Gulf Coast Economic Development District (GCEDD) committees.

Other Business: Omar Fortune announced the next LDC Committee meeting will be held August 6, 2019. The end-of-year corporate meeting will be held in November.

President Sullivan thanked everyone for attending.

Adjournment: 11:44 p.m.

Internal Control Weaknesses

There were no internal control weaknesses identified during the Comprehensive Annual Financial Report (CAFR) for 2018.

Section F

Form 990 Exemption

Exemption from Form 990 Requirements

Rev. Proc. 95-48

Section 3

.01

"Pursuant to the authority of section 1.6033-2(g)(6) of the Income Tax Regulations, an organization that is either a "governmental unit" or an "affiliate of a governmental unit," within the meaning of section 4, is not required to file Form 990."

.02

"The exception from filing provided in section 3.01 applies to all tax years beginning after December 31, 1969..."

Section 4

.01

For purposes of this revenue procedure an organization is treated as a "governmental unit" if:

- (a) It is a state or local governmental unit as defined in section 1.103-1(b) of the regulations;
- (b) It is entitled to receive deductible charitable contributions as an organization described in section 170(c)(1) of the Code; or
- (c) It is an Indian tribal government or a political subdivision thereof under sections 7701(a)(40) and 7871 of the Code.

The Houston-Galveston Area Council is a governmental unit by virtue of being a political subdivision of the State of Texas formed under Chapter 391 of the Local Government Code.

.02

For purposes of this revenue procedure, an organization is treated as an "affiliate of a governmental unit" if it is described in section 501(c) of the Code and it meets the requirements of **either** section 4.02

(a) or (b):

- (a) It has a ruling or determination from the Service that:
 - (i) Its income, derived from activities constituting the basis for its exemption under section 501(c) of the Code, is excluded from gross income under section 115;
 - (ii) It is entitled to receive deductible charitable contributions under section 170(c)(1) of the Code, on the basis that contributions to it are "for the use of governmental units; or
 - (iii) It is wholly owned instrumentality of a state or a political subdivision thereof, for employment tax purposes (see sections 3.121(b)(7) and 3306(c)(7) of the Code

The LDC does not have a ruling or determination letter, however, it meets all three points in section (a). Its income is excluded from the income of H-GAC's gross income. The LDC does not receive charitable contributions. It does meet the definition of a wholly owned instrumentality of a political subdivision for employment tax purposes under the referenced sections. Since it does not have a determination ruling; however, section (b) below is more applicable.

- (b) The organization does not have a ruling or determination described in section 4.02(a) but:
 - (i) It is either "operated, supervised, or controlled by" governmental units, or by organizations that are affiliates of governmental units, within the meaning of section 1.509(a)-4(g)(1)(i) of the regulations or the members of the organization's

governing body are elected by the public at large, pursuant to local statute or ordinance;

The LDC is operated by the Houston-Galveston Area Council as defined in section 1.509(a)-4(g)(1)(i).

(ii) It possesses two or more of the affiliation factors listed in section 4.03; and

The LDC does possess two or more of the affiliation factors listed in 4.03 (below)

(iii) Its filing of Form 990 is not otherwise necessary to the efficient administration of the internal revenue laws.

Since the LDC does not pay taxes, additional reporting would not increase the efficiency of the internal revenue laws.

.03 The following affiliation factors will be considered under paragraph (b)(ii) of section 4.02:

(a) The organization was created by one or more governmental units, organizations that are affiliates of governmental units, or public officials acting in their official capacity.

The LDC was created by the H-GAC Board of Directors all of whom are public officials acting in their official capacity as appointees to the Board.

(b) The organization's support is received principally from taxes, tolls, fines, government appropriations, or fees collected pursuant to statutory authority. Amounts received as government grants or other contract payments are not qualifying support under this paragraph.

The LDC receives fees collected pursuant to authority granted to it by the Small Business Administration and the H-GAC Board of Directors.

(c) The organization is financially accountable to one or more governmental units. This factor is present if the organization is (i) required to report to governmental unit(s), at least annually, information comparable to that required by Form 990; and (ii) is subject to financial audit by the governmental unit(s) to which it reports. A report submitted voluntarily by the organization does not satisfy clause (i). Also reports and audits pursuant to government grants or other contracts do not alone satisfy this paragraph (c).

The LDC is financially accountable to both the H-GAC Board of Directors and the Small Business Administration. Reports are submitted at least annually and there is an organizational audit performed which includes an audit of the LDC.

(d) One or more governmental units, or organizations that are affiliates of governmental units, exercise control over, or oversee, some or all of the organization's expenditures (although it is not financially accountable to governmental units as described in paragraph (c) of this section).

The Houston-Galveston Area Council has oversight of the LDC expenditures and the Executive Director of the H-GAC also serves as the Executive Director of the LDC in accordance with the organization's bylaws.

(e) If the organization is dissolved its assets will (by reason of a provision in its articles of organization or by operation of law) be distributed to one or more governmental units or organizations that are affiliates of governmental units within the meaning of section 4 of this revenue procedure.

The Articles of Incorporation for the LDC provide that upon dissolution of the organization the assets will be distributed to the Houston-Galveston Area Council.

.04 In making a ruling or determination whether the organization's filing of Form 990 is otherwise necessary to the efficient administration of the internal revenue laws under section 4.02(b)(iii), all relevant facts and circumstances shall be considered. Relevant facts and circumstances

suggesting that filing is necessary for efficient tax administration include the extent to which the organization has taxable subsidiaries or participates in joint ventures with non-exempt entities; whether it engages in substantial public fund-raising efforts; and whether its activities provide significant benefits to private interests.

The LDC has no taxable subsidiaries and does not participate in any joint ventures. The organization does not engage in public fund raising. The LDC does provide significant service to private entities in the form of SBA loans, but does not provide benefits to same.

Section G

504 Related Income/ Expenses – Detailed Income Statement

**HOUSTON-GALVESTON AREA
LOCAL DEVELOPMENT CORPORATION
INCOME STATEMENT
For the Period Ended December 31, 2018**

REVENUES

Processing Fees	7,142
Service Fees	460,533
Total Fee Revenue	<u>467,675</u>
Interest	13,029
Other	-
Revenue Before Extraordinary Items	<u>480,704</u>
Galveston Recovery Interest Income	506
al Revenues After Extraordinary Items	<u><u>\$ 481,211</u></u>

EXPENSES

Personnel	\$ 308,496
Indirect	34,737
Other Contract Service	15,740
Travel	4,068
Legal	1,025
Consumable Supplies	987
Rent	24,025
Other	65,107
Total Expenses	<u><u>\$ 454,184</u></u>

Change in fund balance	<u><u>\$ 27,027</u></u>
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Section H

159 Reporting

159 Reporting

The Houston-Galveston Area Local Development Corporation did not close any loans in the 2018 Fiscal Year; and therefore, we have not completed a 159 report.

Section I

Insurance

Subsection 1

Directors and Officers Liability Insurance

**CERTIFICATE OF LIABILITY INSURANCE**

DATE (MM/DD/YYYY)

6/4/2019

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Dean & Draper Ins. Agency, L P 3131 West Alabama Suite 150 Houston TX 77098	CONTACT NAME: Natalie Longoria PHONE (A/C, No, Ext): 713-586-4335 E-MAIL ADDRESS: FAX (A/C, No): 713-527-0457
INSURED Houston Galveston Area Local Development Corporation 3555 Timmons Ln Houston TX 77027	INSURER(S) AFFORDING COVERAGE INSURER A: Continental Casualty Company INSURER B: INSURER C: INSURER D: INSURER E: INSURER F:
HOUSGALV	NAIC # 20443

COVERAGES**CERTIFICATE NUMBER:** 1016657670**REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	COMMERCIAL GENERAL LIABILITY ☐ CLAIMS-MADE ☐ OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: ☐ POLICY ☐ PRO-JECT ☐ LOC ☐ OTHER:						EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMP/OP AGG \$ \$
	AUTOMOBILE LIABILITY ☐ ANY AUTO ☐ OWNED AUTOS ONLY ☐ SCHEDULED AUTOS ☐ HIRED AUTOS ONLY ☐ NON-OWNED AUTOS ONLY						COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
	UMBRELLA LIAB ☐ OCCUR EXCESS LIAB ☐ CLAIMS-MADE ☐ DED ☐ RETENTION \$						EACH OCCURRENCE \$ AGGREGATE \$ \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory In NH) ☐ Y/N If yes, describe under DESCRIPTION OF OPERATIONS below		N/A				PER STATUTE ☐ OTH-ER ☐ E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
A	Directors & Officers Liab			5096890076	4/18/2018	4/18/2020	Single Limit Liab \$1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

CERTIFICATE HOLDER**CANCELLATION**

For Information Only

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

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NAMED INSURED AND ADDRESS		PRODUCER
Item 1.	Houston Galveston Area Local Development Corporation 3555 Timmons Ln Houston, TX 77027	DEAN & DRAPER INSURANCE AGENCY, LP Halen Butler 3131 W ALABAMA STE 150 HOUSTON, TX 77098
Attn:		
CUSTOMER NUMBER		INSURER
733953		Continental Casualty Company
POLICY NUMBER		333 S. Wabash Ave.
596890076		Chicago, IL 60604

Item 2. **Policy Period:** 4/18/2018 to 4/18/2020
12:01 a.m. local time at the address stated in Item 1.

Item 3. **Policy Premium:** \$1,484 (does not include Surcharges or Taxes, if applicable)

Lines of Business	Policy Year Premium	Policy Period Premium
Management Liability - Not For Profit	\$742	\$1,484

Item 4. **Coverage Parts and Endorsements:**

Epac Extra - Directors & Officers Liability Coverage Part	GSL24342XX	01/2011
E-Pack Texas - Policy Holders Notice	GSL-10735-TX	08/2015
Policyholder Notice Economic And Trade Sanctions Conditions	G-145126-AC	08/2003
State Amendatory Inconsistency Endorsement	CNA-81501-XX	03/2015
Amend Additional Limit Of Liability For Non-Indemnifiable Loss Provision Endorsement (Variable Amount)	CNA-84992-XX	02/2016
Amend Erisa Endorsement Settlor Exclusion	CNA-85252-XX	03/2016
Amended Contractual Liability Language In Definition Of Loss Endorsement	CNA-73117-XX	01/2017
Amend Public Offerings Exclusion - Jobs Act Liability Excluded	CNA-68260-XX	01/2017
Cap On Losses From Certified Acts Of Terrorism Endorsement	CNA-81751-XX	03/2015
Amendatory Endorsement Texas	G-139036-A42	07/2010
Cancellation/Non-Renewal Endorsement - Texas	GSL-7541-TX	11/2004
Notice Offer Of Terrorism Coverage Disclosure Of Premium Confirmation Of Acceptance	CNA-81758-XX	03/2015



Item 5. Notices of Claims to Insurer:

CNA – Claims Reporting
P.O. Box 8317
Chicago, IL 60680-8317
Fax: 866-773-7504
Email: SpecialtyNewLoss@cna.com

These Declarations, along with the completed and signed Application, the Policy, and any written endorsements attached shall constitute the contract between the Insureds and the Insurer.

Authorized Representative:

A handwritten signature in black ink, appearing to read "John S. Brand".

Date:



NOTICE

THE LIABILITY COVERAGE PARTS ARE WRITTEN ON A CLAIMS MADE BASIS, AND AS SUCH, TO ALL PROVISIONS, APPLIES ONLY TO ANY CLAIM FIRST MADE DURING THE POLICY PERIOD. NO COVERAGE EXISTS FOR CLAIMS FIRST MADE AFTER THE END OF THE POLICY PERIOD UNLESS, AND TO THE EXTENT THAT, THE EXTENDED REPORTING PERIOD APPLIES. DEFENSE COSTS REDUCE THE LIMIT OF LIABILITY AND ARE SUBJECT TO THE RETENTION. PLEASE REVIEW THE POLICY CAREFULLY AND DISCUSS THE COVERAGE WITH YOUR INSURANCE AGENT OR BROKER.

Named Insured: Houston Galveston Area Local Development Corporation

Policy Number: 596890076

Policy Period: 4/18/2018 to 4/18/2020

Item 1. **Policy Year Limits of Liability and Retentions** (inclusive of **Defense Costs**). Regardless of the Option selected, as indicated by a checked box, please refer to the Coverage Schedule below for applicable Coverage Parts.

The Coverage Parts designated below are issued with the Limits of Liability and Retention Option selected below:

- ☒ **Single Limit of Liability and Scheduled Retentions:**
 Single Limit of Liability \$1,000,000
 Scheduled Retentions Refer to Column 3 below
- ☐ **Scheduled Limits of Liability and Scheduled Retentions:**
 Scheduled Limits of Liability Refer to Column 2 below
 Scheduled Retentions Refer to Column 3 below

① Coverage Part	② Scheduled Limits of Liability	③ Scheduled Retentions Per Claim	Prior or Pending Date	Policy Year Premium	Policy Period Premium
D&O/Entity Liability - Not For Profit		\$2,500	04/18/2018	\$742	\$1,484

NOTE: The premium shown on this Declarations page does not include Surcharges or Taxes, if applicable

Authorized Representative:

Date:

4/18/2018



EpackSM Extra
Management Liability Coverage Part Declarations
Not-For-Profit

NOTICE

THE LIABILITY COVERAGE PARTS ARE WRITTEN ON A CLAIMS MADE BASIS, AND AS SUCH, TO ALL PROVISIONS, APPLIES ONLY TO ANY CLAIM FIRST MADE DURING THE POLICY PERIOD. NO COVERAGE EXISTS FOR CLAIMS FIRST MADE AFTER THE END OF THE POLICY PERIOD UNLESS, AND TO THE EXTENT THAT, THE EXTENDED REPORTING PERIOD APPLIES. DEFENSE COSTS REDUCE THE LIMIT OF LIABILITY AND ARE SUBJECT TO THE RETENTION. PLEASE REVIEW THE POLICY CAREFULLY AND DISCUSS THE COVERAGE WITH YOUR INSURANCE AGENT OR BROKER.

Named Insured: Houston Galveston Area Local Development Corporation

Policy Number: 596890076

Policy Period: 4/18/2018 to 4/18/2020

Item 1. **Policy Year Limits of Liability and Retentions** (inclusive of **Defense Costs**). Regardless of the Option selected, as indicated by a checked box, please refer to the Coverage Schedule below for applicable Coverage Parts.

The Coverage Parts designated below are issued with the Limits of Liability and Retention Option selected below:

- ☒ **Single Limit of Liability and Scheduled Retentions:**
 Single Limit of Liability \$1,000,000
 Scheduled Retentions Refer to Column 3 below
- ☐ **Scheduled Limits of Liability and Scheduled Retentions:**
 Scheduled Limits of Liability Refer to Column 2 below
 Scheduled Retentions Refer to Column 3 below

① Coverage Part	② Scheduled Limits of Liability	③ Scheduled Retentions Per Claim	Prior or Pending Date	Policy Year Premium	Policy Period Premium
D&O/Entity Liability - Not For Profit		\$2,500	04/18/2018	\$742	\$1,484

Authorized Representative:

John S. Brand

Date:

4/18/2018



The Insurer and the **Insureds**, in consideration of the payment of the premium and in reliance upon all statements made in the **Application** furnished to the Insurer designated in the Policy Declarations, a stock insurance corporation, hereafter called the "Insurer," agree as follows. Terms in bold face type have special meaning. See the Glossary of Defined Terms or the applicable Coverage Parts of this Policy.

I. TERMS AND CONDITIONS

The terms and conditions of each **Coverage Part** apply only to that **Coverage Part** and shall not apply to any other **Coverage Part**. If any provision in the General Terms and Conditions is inconsistent or in conflict with the terms and conditions of any **Coverage Part**, the terms and conditions of such **Coverage Part** shall control for purposes of that **Coverage Part**.

II. CANCELLATION

A. Insurer's Right to Cancel

The Insurer shall not cancel this Policy except for non-payment of any premium when due. The Insurer shall provide to the **Named Insured** written notice of such cancellation stating when, not less than twenty (20) days thereafter, such cancellation shall be effective, except that non-payment of premium due at inception of this Policy will result in the policy being cancelled effective as of the effective date.

B. Named Insured's Right to Cancel

The **Insureds** grant the exclusive authority to cancel this Policy to the **Named Insured**. The **Named Insured** may cancel this Policy by providing the Insurer written notice stating when thereafter such cancellation shall be effective. The mailing or delivery of such notice shall be sufficient. The unearned premium shall be computed on a pro-rata basis and premium adjustment may be made at the time cancellation is effected or as soon as practicable.

III. NON-RENEWAL

If the Insurer decides not to offer any renewal terms for this Policy, the Insurer shall provide written notice to the **Named Insured** at least sixty (60) days prior to the Policy expiration date. The notice shall include the reason for such non-renewal.

IV. NAMED INSURED AUTHORIZATION AND NOTICES TO THE NAMED INSURED

The **Insureds** agree that the **Named Insured** will act on behalf of the **Insureds** with respect to giving of all notices to the Insurer (except pursuant to Section XXII. Paragraph **A. Notice of Claim or Privacy Event** or **B. Notice of Circumstance**), the receipt of notices from the Insurer, the payment of the premiums, the receipt of any return premiums that may become due under this Policy, and the acceptance of endorsements.

Any notices required under Section II. **CANCELLATION**, and Section III. **NON-RENEWAL** shall be provided to the **Named Insured** at the last known address and to its insurance agent or broker. The mailing by certified mail of such notice shall be sufficient.

V. APPLICATION

A. The **Insureds** represent and acknowledge that the statements contained in the **Application** (which shall be maintained on file by the Insurer and be deemed attached to and incorporated into this Policy as if physically attached), are true and are the basis of this Policy and are to be considered as incorporated into and constituting a part of this Policy. This Policy is issued in reliance upon the truth of such representations.



B. In the event the **Application** contains any misrepresentation or omission made with the intent to deceive, or which materially affects either the acceptance of the risk or the hazard assumed by the Insurer under the Policy then this Policy shall be voided as to:

1. the **Insured Entity**, if the Chief Executive Officer, Chairperson, Chief Financial Officer, President (or any equivalent position), or the signer of the **Application** knew of such misrepresentation or omission and,
2. any **Insured Persons** who knew of such misrepresentation or omission. Such knowledge shall not be imputed to any other **Insured Persons**.

Notwithstanding anything to the contrary in this Policy and solely to the extent there is a **Non-Indemnifiable Loss**, the Insurer shall not seek to rescind the Policy with respect to any **Insured Person** for any reason.

VI. CHANGES

Notice to or knowledge possessed by any agent or other person acting on behalf of the Insurer shall not effect a waiver or a change in any part of this Policy or stop the Insurer from asserting any right under the provisions of this Policy, nor shall the provisions be waived or changed except by written endorsement issued to form a part of this Policy.

VII. NO ACTION AGAINST INSURER

- A. No action shall be taken against the Insurer unless, as a condition precedent, there shall have been full compliance with all the provisions of this Policy or until the amount of the **Insureds'** obligation to pay shall have been finally determined either by final and nonappealable judgment against the **Insureds** after trial or by written agreement of the **Insureds**, the claimant and the Insurer.
- B. No person or organization shall have any right under this Policy to join the Insurer as a party to any **Claim** against the **Insureds** to determine the **Insureds'** liability, nor shall the Insurer be impleaded by the **Insureds** or their legal representatives in any such **Claim**.

VIII. ASSIGNMENT OF INTEREST

Assignment of interest under this Policy shall not bind the Insurer unless its consent is endorsed to this Policy.

IX. TERRITORY

Coverage shall apply worldwide.

X. ENTIRE AGREEMENT

The **Insureds** agree that this Policy constitutes the entire contract existing between them and the Insurer or any of its agents relating to this insurance.

XI. COORDINATION AMONG COVERAGE PARTS

Subject always to the applicable Limit of Liability, should two or more **Coverage Parts** apply to the same **Claim**; the Insurer will not pay more than the actual **Loss** incurred by the **Insureds**.

XII. COVERAGE FOR NEW SUBSIDIARIES AND PLANS

- A. If, after the effective date of this Policy:



1. an **Insured Entity** creates or acquires a privately held entity or plan, or
2. an **Insured Entity** or any **Plan** merges with another privately held entity or plan such that an **Insured Entity** or any **Plan** is the surviving entity or plan,

then such entity or plan, and any subsidiaries, plans, directors, officers, trustees or employees of such entity or plan who otherwise would thereby become an **Insured**, shall be automatically covered under this Policy, subject to its terms and conditions.

Notwithstanding the above, solely with respect to the coverage provided under the Crime **Coverage Part**, Section **V, CONDITIONS**, Paragraph **A. 2 New Employee Benefit Plans**, of the Crime **Coverage Part** controls whether or not such newly created, acquired, or merged plan is an **Insured** as set forth above.

- B. Solely with respect to any liability **Coverage Part**, there shall be no coverage for any **Wrongful Act** by such created, acquired or merged entity or **Plan**, or by any persons or entities considered to be **Insureds** pursuant to paragraph A of this Section, where such **Wrongful Act** occurred in whole or in part before the effective date of such acquisition or merger or for any **Wrongful Act** occurring on or after such date which, together with any **Wrongful Acts** occurring before such date, would be considered **Interrelated Wrongful Acts**.

XIII. CHANGE OF STATUS OF INSUREDS

A. Takeover of the Named Insured

In the event of a **Takeover** of the **Named Insured**, coverage under this Policy shall continue until this Policy expires or is otherwise terminated, but only with respect to **Wrongful Acts** or **Crime Loss** that takes place before the effective date of the **Takeover**, unless:

1. the Insurer is notified in writing of the **Takeover** prior to the **Takeover** effective date and agrees in writing to provide coverage for **Wrongful Acts** occurring on or after such effective date, and
2. the **Named Insured** accepts any special terms, conditions, exclusions or additional premium charge required by the Insurer.

B. Cessation of Subsidiary

If any **Insured Entity** ceases to be a **Subsidiary**, coverage under this Policy shall continue for such **Subsidiary** but only for **Wrongful Acts** by such **Subsidiary** or any **Insured Person** or **Plan** of such **Subsidiary** occurring prior to the date such **Insured Entity** ceased to be a **Subsidiary**.

C. Transfer or Termination of a Plan

If the sponsorship of a **Plan** is transferred so that an **Insured Entity** is no longer the sole employer sponsor of such **Plan** or if a **Plan** is terminated, coverage under this Policy shall continue for any **Wrongful Act** by or with respect to such **Plan** occurring prior to the date of such transfer or termination.

XIV. TRADE AND ECONOMIC SANCTIONS

This Policy does not provide coverage for **Insureds**, transactions or that part of **Loss** that is uninsurable under the laws or regulations of the United States concerning trade or economic sanctions.

XV. VALUATION

All premiums, limits, retentions, **Loss** and other amounts under this policy are expressed and payable in United States of America currency. If any judgment, settlement or any part of **Loss** is expressed or calculated in any other currency, payment of such **Loss** due under this Policy will be made in the currency of the United States of America, at the rate of exchange published in The Wall Street Journal on the date the Insurer's obligation to pay such **Loss** is established, or, if not published on that date, on the date of next publication.


XVI. HEADINGS

The descriptions in the headings of this Policy are solely for convenience, and form no part of the terms and conditions of coverage.

XVII. BANKRUPTCY

Bankruptcy or insolvency of any **Insured** shall not relieve the Insurer of any of its obligations hereunder.

THOSE LIABILITY COVERAGE PARTS DESIGNATED AS "CLAIMS MADE" APPLY ONLY TO CLAIMS FIRST MADE AGAINST THE INSURED DURING THE POLICY PERIOD. CLAIMS MADE UNDER ANY CLAIMS MADE LIABILITY COVERAGE PARTS MUST BE REPORTED IN ACCORDANCE WITH THE SECTION XXII., NOTICE/DATE OF CLAIM/INTERRELATED CLAIM CLAUSE. NO COVERAGE EXISTS FOR CLAIMS FIRST MADE AGAINST THE INSURED AFTER THE END OF THE POLICY PERIOD UNLESS, AND TO THE EXTENT THAT, THE EXTENDED REPORTING PERIOD APPLIES. DEFENSE COSTS REDUCE THE LIMIT OF LIABILITY AND ARE SUBJECT TO THE RETENTION. PLEASE REVIEW THE POLICY CAREFULLY AND DISCUSS THE COVERAGE WITH YOUR INSURANCE AGENT OR BROKER. THE FOLLOWING TERMS AND CONDITIONS APPLY ONLY TO LIABILITY COVERAGE PARTS:

XVIII. EXTENDED REPORTING PERIOD

Solely with respect to those Liability **Coverage Parts** written on a claims made basis, the following applies:

A. Optional Extended Reporting Period

If the **Named Insured** cancels or non-renews this Policy or if the Insurer decides not to offer any renewal terms for this Policy, the **Named Insured** shall have the right to purchase, upon payment of an additional premium an extension of this Policy immediately following the end of the **Policy Period**, but only with respect to any **Wrongful Act** committed before the earlier of the end of the **Policy Period** or the effective date of any **Takeover**. The additional premium for such extension is a percentage of the total **Policy Premium** attributable to the **Policy Year** in effect upon such cancellation or non-renewal. For a one year extension, the premium equals seventy-five percent (75%) of such total **Policy Premium**; for a two year extension, the additional premium equals one hundred and twenty-five percent (125%) of such total **Policy Premium**; and for a three year extension, the additional premium equals one hundred and fifty percent (150%) of such total **Policy Premium**.

This period shall be referred to as the Extended Reporting Period.

B. Payment of Extended Reporting Period Premium

As a condition precedent to the right to purchase the Extended Reporting Period, the total premium for this Policy must have been paid. The right to purchase the Extended Reporting Period ends sixty (60) days after termination or expiration of the **Policy Period** unless the Insurer receives written notice and full payment of the premium for such Extended Reporting Period within sixty (60) days after such termination or expiration

C. Non-Cancelable/Premium Fully Earned

If the Extended Reporting Period is purchased, the entire premium shall be deemed fully earned at its commencement without any obligation by the Insurer to return any portion thereof.

D. No Separate Limit

There is no separate or additional limit of liability for the Extended Reporting Period. The remainder of the Limit of Liability applicable to the **Policy Year** in effect at the end of the **Policy Period** is the limit of liability for all **Claims** reported during the Extended Reporting Period.

XIX. ESTATES, LEGAL REPRESENTATIVES AND SPOUSES



Solely with respect to Liability **Coverage Parts**, the estates, heirs, legal representatives, assigns, spouses and any **Domestic Partners** of the **Insured Persons** shall be considered **Insureds** under this Policy; provided, however, coverage is afforded to such estates, heirs, legal representatives, assigns, spouses and **Domestic Partners** only for **Claims** arising solely out of their status as such and, in the case of a spouse or **Domestic Partner**, where such **Claim** seeks damages from marital community property, jointly held property or property transferred from the **Insured Person** to the spouse or **Domestic Partner**. No coverage is provided for any act, error or omission of an estate, heir, legal representative, assign, spouse or **Domestic Partner**. All terms and conditions of this Policy, including without limitation the retention, applicable to **Loss** incurred by the **Insured Person**, shall also apply to loss incurred by such estates, heirs, legal representatives, assigns, spouses and **Domestic Partners**.

XX. LIMITS OF LIABILITY/RETENTIONS

Solely with respect to Liability **Coverage Parts**:

A. Options

This Policy is offered with one of the following options as set forth in the respective Management Liability **Coverage Part** Declarations or the Professional Liability **Coverage Part** Declarations:

1. a Single per **Policy Year** Limit of Liability and Scheduled Retentions; or,
2. Scheduled per **Policy Year** Limits of Liability and Scheduled Retentions.

The **Policy Year** Limits of Liability may not be aggregated or transferred, in whole or in part, so as to provide any additional coverage with respect to **Claims** first made or deemed made during any other **Policy Year**. If the applicable Limits of Liability of for any **Policy Year** are exhausted, the Insurer's obligation for that **Policy Year** shall be deemed completely fulfilled and extinguished.

B. Single Limit of Liability Option

Where the Single Limit of Liability Option has been selected, as set forth in the respective Management Liability **Coverage Part** Declarations or the Professional Liability **Coverage Part** Declarations, the limits apply as follows:

1. the limit of liability set forth in the Management Liability **Coverage Part** Declarations shall be the maximum per **Policy Year** aggregate limit of liability of the Insurer for all **Loss** under this Policy from all Management Liability **Coverage Parts** shown on the Management Liability **Coverage Part** Declarations, regardless of the number of such **Coverage Parts**.
2. the limit of liability set forth in the Professional Liability **Coverage Part** Declarations shall be the maximum per **Policy Year** aggregate limit of liability of the Insurer for all **Loss**, all **Privacy Event Expenses**, and all **Network Extortion Expenses** under this Policy from all Professional Liability **Coverage Parts** shown on the Professional Liability **Coverage Part** Declarations, regardless of the number of such **Coverage Parts**.

C. Scheduled Limits of Liability Option

Where the Scheduled Limits of Liability Option as set forth in the respective Management Liability **Coverage Part** Declarations or the Professional Liability **Coverage Part** Declarations, the Scheduled Limits of Liability for each **Coverage Part** shall apply as separate Limits of Liability for each such **Coverage Part** and shall be the maximum per **Policy Year** aggregate limit of liability of the Insurer for all **Loss**, all **Privacy Event Expenses** and all **Network Extortion Expenses** under the respective **Coverage Part** for each **Policy Year**.

D. Each Claim Limits of Liability

Subject to the applicable Limit of Liability provided in Paragraph B. or C., above, the amounts set forth in the Professional Liability **Coverage Part** Declarations as the each **Claim** Limit of Liability shall be the per **Policy Year** limit of liability of the Insurer for all **Loss** for each such **Claim**.

E. Privacy Event Expenses/Network Extortion Expenses Sub-Limit of Liability

Subject to the applicable Limits of Liability provided in Paragraph B., C. or D., above:



1. the amount set forth in the Professional Liability **Coverage Part** Declarations, if any, as the **Privacy Regulation Proceedings** in the Aggregate Limit shall be the per **Policy Year** limit of liability of the Insurer for all **Loss** for all **Privacy Regulation Proceedings**;
2. the amounts set forth in the Professional Liability **Coverage Part** Declarations, if any, as the **Privacy Event Expenses** in the Aggregate Limit and as the **Network Extortion Expenses** in the Aggregate Limit are the per **Policy Year** limits of liability of the Insurer for all such **Privacy Event Expenses** and all such **Network Extortion Expenses**.

Such amounts as set forth in paragraphs E. 1 and 2 above are sublimits of liability which further reduce, and in no way increase, the applicable each **Claim** and Aggregate Limits of Insurance as set forth on the Professional Liability **Coverage Part** Declarations.

F. Additional Limit of Liability for Non-Indemnifiable Loss

Solely with respect to Section I, INSURING AGREEMENT A. of the Directors & Officers Liability **Coverage Part**, there is an additional Limit of Liability which shall not exceed \$1,000,000 (the "non-indemnifiable **Loss** limit") per **Policy Year**. This non-indemnifiable **Loss** limit is available only after the applicable Limits of Liability as set forth in the Management Liability **Coverage Part** Declarations has been exhausted.

G. Retentions

1. Retentions set forth in the respective Management Liability **Coverage Part** Declarations or the Professional Liability **Coverage Part** Declarations shall apply under each **Coverage Part** as set forth in such Declarations. The Insurer shall pay **Loss** in excess of any retention as it becomes due and payable to the **Insureds**.
2. Subject to paragraph 3. below, the Insurer's obligation to pay **Loss** is in excess of any applicable retentions. The Insurer will have no obligation to pay all or any portion of any applicable retention. Should the Insurer, in its sole discretion, pay any retention, then the **Named Insured** shall have the obligation to reimburse the Insurer for such amounts.
3. Solely with respect to the Directors & Officers Liability **Coverage Part** and the Fiduciary Liability **Coverage Part**, no retention applies to any **Insured Person** with respect to any **Claim** against such **Insured Persons** if:
 - a. the **Insured Entity** and/or any **Plan** are not permitted to advance **Defense Costs** or to indemnify such **Insured Person** for **Loss** by reason of:
 - i. **Financial Insolvency**; or
 - ii. a good faith determination by the **Insured Entity** and/or any **Plan** that such payment is not permitted under the broadest construction of applicable law; or,
 - b. there is a determination of **No Liability** of such **Insured Person** with respect to such **Claim**, or if such **Claim** is dismissed, or, there is a stipulation to dismiss such **Claim**, with prejudice and without the payment of any consideration.
4. Subject to Section XI. **Coordination Among Coverage Parts**, if a **Single Loss** is covered under more than one **Coverage Part** and if more than one retention applies to such **Single Loss**, the maximum total retention amount applicable to such **Single Loss** shall be the highest of such applicable retentions.

H. Supplementary Payment - Defendant Reimbursement

If the Insurer requests an **Insured Person's** presence at a trial, hearing, deposition, mediation or arbitration, the Insurer will pay up to \$250.00 a day per person for reimbursement of costs and expenses incurred in connection with such presence, subject to a maximum amount of \$2,500 per **Claim** per **Policy Year**. Such payments are in addition to the limits of liability and do not erode any retention.

I. Multiple Insureds, Claims and Claimants



The applicable limit of liability shown in the respective Management Liability **Coverage Part** Declarations or the Professional Liability **Coverage Part** Declarations, and subject to the provisions of this Policy, is the amount the Insurer will pay for **Loss**, **Privacy Event Expenses** (as applicable) or **Network Extortion Expenses** (as applicable) per **Policy Year** regardless of the number of **Insureds**, **Claims** (including **Privacy Regulation Proceedings**), **Privacy Events**, **Network Extortions**, or persons or entities making **Claims**.

XXI. DEFENSE/SETTLEMENT/MEDIATION/PRE-CLAIM ASSISTANCE

Solely with respect to Liability **Coverage Parts**, and solely with respect to those **Claims** that are not **Privacy Regulation Proceedings**:

A. Defense of Claims

The Insurer has the right and duty to defend all **Claims** even if the allegations are groundless, false or fraudulent. The Insurer shall have the right to appoint counsel and to make such investigation and defense of a **Claim** as it deems necessary. Alternatively the Insurer may at its option, give its written consent to the defense of any such **Claim** by the **Insureds**. The Insurer's obligation to defend any **Claim** or pay any **Loss**, including **Defense Costs**, shall be completely fulfilled and extinguished if the applicable limit of liability has been exhausted by payment of **Loss**.

B. Settlement

1. Consent

The Insurer shall not settle a **Claim** without the written consent of the **Named Insured**. If the **Named Insured** refuses to consent to a settlement or compromise recommended by the Insurer, and acceptable to the claimant, then the limit of liability applicable to such **Claim** for all **Loss** including **Defense Costs** under this Policy shall be reduced to:

- a. the amount of the proposed settlement plus **Defense Costs** incurred up to the date of the **Named Insured's** refusal to consent to proposed settlement of such **Claim**;

plus, solely with respect to the Directors & Officers Liability **Coverage Part**, the Employment Practices Liability **Coverage Part**; and the Fiduciary Liability **Coverage Part**:

- b. eighty percent (80%) of any **Loss**, including **Defense Costs**, in excess of the amount referenced in paragraph a. above, incurred in connection with such **Claim**. The remaining twenty percent (20%) of any **Loss**, including **Defense Costs**, in excess of the amount referenced in paragraph a. above will be borne uninsured and at the **Insured's** own risk;

which amount shall not exceed the remainder of the applicable limit of liability specified in the Management Liability **Coverage Part** Declarations or the Professional Liability **Coverage Part** Declarations.

2. Mediation

If, prior to institution of arbitration proceedings or service of suit or within sixty (60) days of the institution of such proceedings or service of suit, the Insurer and the **Named Insured** agree to use a process of non binding intervention by a neutral third party to resolve any **Claim** reported to the Insurer, and if such **Claim** is resolved through such process, the Insurer will reduce the retention applicable to such **Claim** by fifty percent or ten thousand dollars (\$10,000.00), whichever is less.

3. Admission

The **Insureds** shall not admit liability, consent to any judgment, agree to any settlement or make any settlement offer without the Insurer's prior written consent, such consent not to be unreasonably withheld. The Insurer shall not be liable for any **Loss** to which it has not consented. The **Insureds** agree that they shall not knowingly take any action which increases the Insurer's exposure for **Loss** under this Policy.

4. Payment of Loss in Excess of Retentions



The Insurer is liable to pay only that amount of a covered **Single Loss** in excess of the applicable retention, if any, up to the applicable limit of liability. The retention shall be uninsured.

5. **Cooperation/Assistance of Insureds**

The **Insureds** shall furnish the Insurer with copies of reports, investigations, pleadings, and all related papers, and such other information, assistance and cooperation as the Insurer may reasonably request.

C. **Pre-Claim Assistance**

Until the date a **Claim** is made, the Insurer may pay for all costs or expenses it incurs, at its sole discretion, as a result of investigating a circumstance that an **Insured** reports in accordance with Section **XXII. NOTICE/DATE OF CLAIM/INTERRELATED CLAIM CLAUSE**. Should a circumstance be investigated pursuant to this Section, and that circumstance later becomes a covered **Claim** under this Policy, then the limits of liability and the retention applicable to such **Claim** shall apply to such **Claim**.

D. **Defense of Privacy Regulation Proceedings**

Solely with respect to those **Claims** that are **Privacy Regulation Proceedings**, the **Insureds** and not the Insurer have the duty to defend any **Privacy Regulation Proceedings**. The Insurer shall be entitled to effectively associate in the defense and the negotiation of any settlement of any **Privacy Regulation Proceeding** that involves or appears reasonably likely to involve the Insurer.

E. **Allocation**

If, in any **Claim** under a liability **Coverage Part**, the **Insureds** who are afforded coverage for such **Claim** incur an amount consisting of both **Loss** that is covered by this Policy and also loss that is not covered by this Policy because such **Claim** includes both covered and uncovered matters or covered and uncovered parties, then coverage shall apply as follows:

1. **Defense Costs**: one hundred percent (100%) of reasonable and necessary **Defense Costs** incurred by such **Insured** from such **Claim** will be considered covered **Loss**; and
2. loss other than **Defense Costs**: all remaining loss incurred by such **Insured** from such **Claim** will be allocated between covered **Loss** and uncovered loss based upon the relative legal exposures of the parties to such matters.

XXII. NOTICE/DATE OF CLAIM/INTERRELATED CLAIM CLAUSE

Paragraphs A. and B. apply only to those Liability **Coverage Parts** written on a claims made basis.

A. **Notice of Claim or Privacy Event**

The **Insureds** shall, as a condition precedent to the obligations of the Insurer under this Policy, give prior written notice to the Insurer of a **Claim** or a **Privacy Event** as soon as practicable after the **Named Insured's** Chief Executive Officer, Chairperson, Chief Financial Officer, President, Risk Manager, In-House General Counsel or Plan Fiduciary (or any equivalent position) learns of such **Claim** or **Privacy Event** but in no event later than ninety (90) days after termination or expiration of the **Policy Period** or any subsequent renewal **Policy Period** in an uninterrupted series of renewals, or prior to the expiration of the Extended Reporting Period, if applicable.

B. **Notice of Circumstance**

If, during the **Policy Period** or the Extended Reporting Period, if applicable, the **Insureds** first become aware of a **Wrongful Act** that occurred during the **Policy Period** which may reasonably give rise to a future **Claim** (a "circumstance") and during such period give written notice to the Insurer of:

1. the names of any potential claimants and a description of the **Wrongful Act** which forms the basis of their potential **Claim**;
2. the identity of the specific **Insureds** allegedly responsible for such specific **Wrongful Act**;



3. the consequences which have resulted or may result from such specific **Wrongful Act**;
4. the nature of the potential monetary damages or non-monetary relief which may be sought in consequence of such specific **Wrongful Act**; and,
5. the circumstances by which **Insureds** first became aware of such specific **Wrongful Act**;

then any **Claim** otherwise covered pursuant to a **Coverage Part** which is subsequently made and which arises out of such circumstance shall be deemed to have been first made and reported to the Insurer by the **Insureds** at the time such written notice was received by the Insurer. No coverage is provided for fees and expenses incurred prior to the time such notice results in a **Claim**.

C. Notice of Occurrence for the Media Liability Coverage Part (Occurrence)

Solely with respect to the Media Liability **Coverage Part (Occurrence)**, the **Insureds**, as a condition precedent to the obligations of the Insurer under Media Liability **Coverage Part**, shall give written notice to the Insurer as set forth in such Occurrence form.

D. Interrelated Claims

1. More than one **Claim** involving the same **Wrongful Act** or **Interrelated Wrongful Acts** shall be considered as one **Claim** which shall be deemed made on the earlier of:
 - a. the date on which the earliest such **Claim** was first made, or
 - b. the first date valid notice was given by the **Insureds** to the Insurer under this Policy of any **Wrongful Act** or under any prior policy of any **Wrongful Act** or any fact, circumstance, situation, event or transaction which underlies any such **Claim**.
2. More than one **Privacy Event** involving the same **Wrongful Act** or **Related Wrongful Acts** shall be considered as one **Privacy Event** which shall be subject to the **Privacy Event** limit applicable to the earliest such **Privacy Event** reported to the Insurer under this Policy or under any prior policy.

E. To Whom Notice of Claim or Circumstance is Sent

The **Insureds** shall give written notice of Claims or circumstances to the Insurer under this Policy as specified in the Policy Declarations, which notice shall be effective upon receipt.

XXIII. OTHER INSURANCE

Solely with respect to Liability **Coverage Parts**:

- A. If any **Loss** resulting from any **Claim** is insured under any other valid and collectible insurance, this Policy shall apply only as excess over such other insurance unless such other insurance is written only as specific excess insurance over the limit of liability provided by this Policy.
- B. Any coverage under this Policy for **Claims** against any **Insured Person** while acting as an **Outside Entity Executive** shall be specifically excess of any valid and collectible insurance and/or indemnification available to such **Outside Entity Executive** from the **Outside Entity**. Payment by the Insurer or any affiliate of the Insurer under another policy as a result of a **Claim** against an **Insured Person** while acting as an **Outside Entity Executive** shall reduce, by the amount of such payment, the Insurer's Limit of Liability under this Policy with respect to such **Claim**.

XXIV. SUBROGATION AND RECOVERY

Solely with respect to Liability **Coverage Parts**:

- A. To the extent it pays any **Loss**, the Insurer shall be subrogated to all the **Insureds'** rights of recovery therefore, including without limitation an **Insured Person's** right to indemnification or advancement from an **Insured Entity**. The **Insureds** shall execute all papers necessary to secure such rights, including executing any documents necessary to enable the Insurer effectively to bring suit in their name, and shall take no action which impairs the Insurer's rights of subrogation or recovery.



GENERAL TERMS AND CONDITIONS

- B. If a **Single Loss** is in part insured and in part uninsured under this Policy or is in an amount in excess of the applicable limit of liability, the **Insureds** and the Insurer shall attempt to agree upon an equitable allocation of any recoveries made, whether before or after payment of the **Loss** by the Insurer, from any person or source responsible for causing the **Loss**. Reasonable expenses incurred in making a recovery shall always have priority of payment from all such recoveries. If, after exerting their best efforts, the **Insureds** and the Insurer are unable to agree upon such an allocation after taking into account due consideration for the respective parties' willingness to pay the expenses of making any recovery, the Insurer, if requested by the **Insureds**, shall submit the dispute to binding arbitration. The rules of the American Arbitration Association shall apply with respect to the selection of the arbitration panel, which shall consist of one arbitrator selected by the **Insureds**, one arbitrator selected by the Insurer, and a third independent arbitrator selected by the first two arbitrators.
- C. In no event shall the **Insureds** be entitled to recoup from recoveries any amount to satisfy any retention until after all amounts which the Insurer is required to pay or pays under any applicable **Coverage Part** are reimbursed to the Insurer.
- D. No person or **Insured Entity** shall have any right under this Policy to join the Insurer as a party to any **Claim** against the **Insureds** to determine the **Insureds'** liability, nor shall the Insurer be impleaded by the **Insureds** or their legal representatives in any such **Claim**.
- E. Solely with respect to coverage under the Fiduciary Liability **Coverage Part**, the Insurer shall have the right to full recourse against **Insured Persons** who actually commit a **Wrongful Act**, provided however, that if the **Insured Persons** or the **Insured Entity** shall have paid the premium set forth in the Policy Declarations and no part of such premium has been paid, directly or indirectly, from any assets of the **Plan**, then the Insurer shall have no such rights of recourse.

IN WITNESS WHEREOF, the Insurer has caused this Policy to be signed by its Chairman and Secretary at Chicago, Illinois, but the same shall not be binding upon the Insurer unless countersigned by a duly authorized representative of the Insurer.

Chairman

Secretary

For purposes of this Policy, words in bold, whether expressed in the singular or the plural, have the meaning set forth below.

ADMINISTRATOR

Administrator means an **Insured** who renders **Administration Services** in connection with the **Plan**.

ADMINISTRATION SERVICES

Administration Services means any of the following services in connection with the **Plan**:

1. communicating with or providing information to **Employees** or **Plan** participants or beneficiaries regarding any **Plan**;
2. determining vesting and eligibility for **Plan** participation or benefits;
3. calculating benefits provided under the **Plan**;
4. processing applications and related forms required for the payment of benefits;
5. performing any record-keeping and data processing functions required by **ERISA** or any **Similar Act** or the **Plan**;
6. preparing and filing any necessary reports or returns required under **ERISA** or any **Similar Act** or the Internal Revenue Code, and the regulations thereunder;
7. effecting the payment of benefits or authorized administrative expenses; or,
8. enrolling, terminating or canceling **Employees** or **Plan** participants or beneficiaries.

APPLICATION

Application means all signed applications for this Policy and for any policy in an uninterrupted series of policies issued by the Insurer or any affiliate of the Insurer of which this Policy is a renewal or replacement. **Application** includes any materials submitted or required to be submitted therewith. An "affiliate of the Insurer" means an insurer controlling, controlled by, or under common control with, the Insurer.

CLAIM

Claim means:

1. a written demand for monetary damages or non-monetary relief (including demands for injunctive or declaratory relief) against an **Insured** alleging a **Wrongful Act**, which **Claim** shall be deemed made on the date of the **Insureds'** receipt of such written demand; or
2. a written request received by the **Insured** to toll or waive a statute of limitations in connection with a **Claim** as defined in paragraph I. through III. below, which **Claim** shall be deemed made on the date of the **Insureds'** receipt of such written request; or

When used in the:

- I. Directors & Officers Liability **Coverage Part**, **Claim** also means:
 - A. solely with respect to the Insuring Agreements A., B. and C., a proceeding which is
 - i. a civil or criminal proceeding in a court of law or equity or any alternative dispute resolution proceeding; or,
 - ii. a formal civil or criminal administrative or regulatory proceeding;

against an **Insured** alleging a **Wrongful Act**, including any appeal therefrom. Such **Claim** shall be deemed made on the earliest of the date of service upon, or other receipt by, any **Insured** of a complaint, subpoena, indictment, notice of charge or similar document in such proceeding or arbitration;

- B. solely with respect to Insuring Agreements A. and B., a formal civil, criminal, administrative or regulatory investigation of an **Insured Person** alleging a **Wrongful Act**, which **Claim** shall be deemed made upon such **Insured Person** being identified by name in a formal order of investigation, Wells Notice, target letter (within the meaning of Title 9, §11.151 of the United States Attorney's Manual), or similar document, as someone against whom a formal civil, criminal, administrative or regulatory investigation may be brought; or,

II. Employment Practices Liability Coverage Part, Claim also means:

- A. a civil proceeding in a court of law or equity or any alternative dispute resolution proceeding; or,
- B. a formal civil administrative or regulatory proceeding or formal civil, administrative or regulatory investigation (including an **EEOC Proceeding**);

against an **Insured**, alleging a **Wrongful Employment Practice**, including any appeal therefrom. Such **Claim** shall be deemed made on the earliest of the date of service upon, or other receipt by, any **Insured** of a complaint, subpoena, formal order of investigation, target letter (within the meaning of Title 9, §11.151 of the United States Attorney's Manual), or similar document in such proceeding, arbitration or investigation.

However, **Claim** does not include any criminal proceeding, criminal administrative or criminal regulatory proceeding or criminal investigation. Nor does **Claim** include an audit conducted by the Office of Federal Contract Compliance Programs unless a Notice of Violation, Order to Show Cause or written demand for monetary relief or injunctive relief has been issued;

III. Fiduciary Liability Coverage Part, Claim also means a proceeding which is a:

- A. civil or criminal proceeding in a court of law or equity or any alternative dispute resolution proceeding; or
- B. a formal civil or criminal administrative or regulatory proceeding or formal civil, administrative or regulatory investigation;

against an **Insured** alleging a **Wrongful Act**, including any appeal therefrom. Such **Claim** shall be deemed made on the earliest of service upon, or other receipt by, any **Insured** of a complaint, subpoena, indictment, notice of charge, formal order of investigation, target letter (within the meaning of Title 9, §11.151 of the United States Attorney's Manual), or similar document in such proceeding, arbitration or investigation.

COMPLIANCE COSTS

Compliance Costs means:

- 1. **Consulting Fees** incurred in connection with, or
- 2. any fines, penalties or sanctions paid by an **Insured** to a governmental authority pursuant to,

a **Voluntary Compliance Program** for the actual or alleged inadvertent non-compliance by a **Plan** with any statute, rule or regulation; provided **Compliance Costs** shall not include: (i) any costs to correct the non-compliance, or (ii) any **Consulting Fees**, fines, penalties or sanctions relating to a **Plan** which, as of the earlier of inception of this **Policy** or inception of the first policy in an uninterrupted series of policies issued by the **Insurer** of which this **Policy** is a direct or indirect renewal or replacement, any **Insured Person** knew to be actually or allegedly non-compliant.

CONSULTING FEES

Consulting Fees means reasonable and necessary fees, costs and expenses incurred by the **Insureds** with the prior written consent of the Insurer, including the fees charged by a third party actuary, benefits consultant, accountant or legal counsel, resulting solely from the correction of an actual or alleged inadvertent non-compliance by a **Plan** with any statute, rule or regulation. However, **Consulting Fees** shall not include fees, costs or expenses relating to a **Plan** audit or relating to finding, assessing or identifying such violation.

COVERAGE PART

Coverage Part means only those coverage parts designated as included in the Declarations.

DEFENSE COSTS

Defense Costs with respect to all Liability **Coverage Parts** means:

1. all fees charged by attorneys designated by the Insurer, and all reasonable fees charged by attorneys designated by the **Named Insured** with the Insurer's prior written consent;
2. all other fees, costs and expenses resulting from the investigation, adjustment, defense and appeal of a **Claim** incurred by the Insurer or by the **Insureds** with the prior written consent of the Insurer; and,
3. the costs of appeal, attachment or similar bonds. The Insurer has no obligation to provide such bonds.

Defense Costs do not include any fees, costs or expenses incurred by an **Insured** to the extent the **Defense Costs** are without the Insurer's prior written consent.

All fees, costs and expenses incurred in the investigation, adjustment, defense and appeal of a **Claim** must be reasonable and necessary to the defense of the **Claim**.

However, **Defense Costs** does not include salaries, wages, fees, overhead or benefit expenses associated with the directors, officers, **Employees** of the **Insured Entity**.

DOMESTIC PARTNER

Domestic Partner means any person qualifying as a "domestic partner" under any federal, state or local laws or under the **Insured Entity's** employee benefit plans.

EEOC PROCEEDING

EEOC Proceeding means an investigative proceeding before the Equal Employment Opportunity Commission or an adjudicatory or investigative proceeding before any similar federal, state or local government body whose purpose is to address **Wrongful Employment Practices**.

EMPLOYEE

Employee means all past, present or future full-time or part-time employees of the **Insured Entity**, including seasonal and temporary employees and employees leased or loaned to the **Insured Entity** and including any volunteers or committee members of the **Insured Entity**. **Employee** does not include any independent contractor.

However, when used in the Crime **Coverage Part**, **Employee** has the meaning set forth therein.

EMPLOYMENT RELATED BENEFITS

Employment Related Benefits means perquisites, fringe benefits, deferred compensation or payments (including insurance premiums) in connection with an employee benefit plan, **Stock Benefits** and any other payment to or for the benefit of an **Employee** arising out of the employment relationship. **Employment Related Benefits** shall not include salary, wages, commissions, or non-deferred cash incentive compensation.

ERISA OR ANY SIMILAR ACT

ERISA or any Similar Act means the Employee Retirement Income Security Act of 1974, as amended, or any similar common or statutory law of the United States, Canada or their states, territories or provinces or any other jurisdiction anywhere in the world.

EXECUTIVE

Executive means any past, present or future director, officer, trustee, governor or **Manager** of the **Insured Entity** or any **Plan**.

When used in the Employment Practices Liability **Coverage Part**, **Executive** also includes any past, present or future director of human resources or functional equivalent position of any **Insured Entity**.

FIDUCIARY

Fiduciary means any **Insured Person** who is described as a fiduciary with respect to the **Plan** in Section 3(21)(A) of Employee Retirement Income Security Act of 1974, as amended.

FINANCIAL INSOLVENCY

Financial Insolvency means:

1. the appointment of a receiver, conservator, liquidator, trustee, rehabilitator or similar official to take control of, supervise, manage or liquidate such **Insured Entity** or **Plan**; or such **Insured Entity** or **Plan** becoming a debtor in possession; or
2. the inability of such **Insured Entity** or **Plan** financially or under applicable law to advance **Defense Costs** or indemnify the **Insured Persons** for **Loss**.

FOREIGN JURISDICTION

Foreign Jurisdiction means any jurisdiction, other than the United States or any of its territories or possessions.

INSURED

Insured means the **Insured Person** and the **Insured Entity**.

When used in the Fiduciary Liability **Coverage Part**, **Insured** also means any **Plan**.

INSURED ENTITY

Insured Entity means the **Named Insured** and any **Subsidiary** including any such entity as a debtor in possession under United States bankruptcy law or an equivalent status under the law of any other country.

When used in connection with the Crime **Coverage Part**, **Insured** has the meaning set forth therein.

INSURED PERSON

Insured Person means **Executives** and **Employees** of the **Insured Entity**.

When used in the:

- I. Directors & Officers Liability **Coverage Part**, **Insured Person** also includes any **Outside Entity Executive**;
- II. Fiduciary Liability **Coverage Part**, **Insured Person** also includes **Executives** or **Employees** of any **Plan**;

INTERRELATED WRONGFUL ACTS

Interrelated Wrongful Acts means **Wrongful Acts** which are logically or causally connected by reason of any common fact, circumstance, situation, transaction or event.

LOSS

Loss means:

1. damages, settlements, judgments (including any award of pre-judgment and post-judgment interest on a covered judgment) and **Defense Costs** for which the **Insured** is legally obligated to pay on account of a covered **Claim**; and
2. punitive and exemplary damages and the multiplied portion of multiplied awards (subject to this Policy's other terms, conditions and limitations). Enforceability of this paragraph shall be governed by such applicable law that most favors coverage for such punitive, exemplary and multiplied amounts. As used herein, "applicable law" means the law of any of the following jurisdictions:
 - a. where the **Claim** seeking such **Loss** is brought or where such **Loss** is awarded or imposed; or
 - b. where the **Wrongful Act** giving rise to the **Claim** occurred; or
 - c. where the **Insureds** subject to such **Loss** are incorporated, have their principal place of business or reside; or
 - d. where the Insurer is incorporated or has its principal place of business.

Solely with respect to the Employment Practices Liability **Coverage Part**, **Loss** also includes back pay and front pay, and liquidated damages awarded pursuant to the Age Discrimination in Employment Act or the Equal Pay Act.

However, with respect to all **Coverage Parts**, **Loss** does not include:

1. any amount for which an **Insured Person** is absolved from payment by reason of any covenant, agreement or court order;
2. any matters which are uninsurable (other than punitive, exemplary and the multiplied portion of multiplied awards as set forth above) under the law pursuant to which this Policy shall be construed.

In addition to the above, and solely with respect to the:

- I. Directors & Officers Liability **Coverage Part** – Not-for-Profit Entities, **Loss** does not include:
 1. civil or criminal fines, penalties, taxes, sanctions or forfeitures imposed on an **Insured** whether pursuant to law, statute, regulation or court rule, other than:

- a. those civil fines or penalties imposed under 42 USC 1320d-5(a) of the Health Insurance Portability and Accountability Act of 1996, provided however that the maximum limit of the Insurer's liability for all such fines and penalties shall be \$100,000 per **Claim**. This sublimit of Liability is part of and not in addition to the applicable Limits of Liability;
- b. those taxes imposed by the Internal Revenue Service, pursuant to Section 4958(a)(2) of the Internal Revenue Code, 26 U.S.C. 4958(a)(2), on an **Insured Person** as a result of such **Insured Person's** participation in an any excise benefit transaction as defined in Section 4958(c) of the Internal Revenue Code, provided however that:
 - i. indemnification by the **Insured Entity** for such taxes is not expressly prohibited in the bylaws, certificate of incorporation or other organizational documents of the **Insured Entity**;
 - ii. the maximum limit of the Insurer's liability for all such taxes shall be \$100,000 per **Claim**. This sublimit of liability is part of and not in addition to the applicable Limits of Liability.
2. any amount (other than **Defense Costs**) attributable to the cost of any non-monetary relief, including without limitation any costs associated with compliance with any injunctive relief of any kind or nature;
3. any amounts for which an **Insured** is liable due to an act or omission in knowing violation of any oral or written contract or agreement or due to its assumption of the liability of others under any contract or agreement; or
4. compensation earned by the claimant in the course of employment but unpaid by the **Insured**, including salary, wages, commissions, severance, bonus, benefits or incentive compensation.

II. Employment Practices Liability Coverage Part, Loss does not include:

1. civil or criminal fines, penalties, taxes, sanctions or forfeitures imposed on an **Insured** whether pursuant to law, statute, regulation or court rule;
2. compensation earned by the claimant in the course of employment but unpaid by the **Insured**, including salary, wages, commissions, severance, bonus or incentive compensation; or
3. any amounts for which an **Insured** is liable due to an act or omission in knowing violation of any written contract of employment;
4. amounts, other than **Defense Costs**, representing medical or insurance premiums or benefit claim payments;
5. future salary, wages or commissions of a claimant who is hired, promoted or reinstated to employment pursuant to a settlement of, order in, or other resolution of any **Claim**; or
6. **Employment Related Benefits**.

III. Fiduciary Liability Coverage Part, Loss does not include civil or criminal fines, penalties, taxes, sanctions or forfeitures, imposed on an **Insured** whether pursuant to law, statute, regulation or court rule other than:

1. **Compliance Costs**;
2. the five percent or less or the twenty percent or less penalty imposed upon an **Insured** as a **Fiduciary** under Section 502(i) or 502(l) of ERISA; or,
3. those civil fines or penalties imposed under 42 USC 1320d-5(a) of the Health Insurance Portability and Accountability Act of 1996, provided however that the maximum limit of the Insurer's liability for all such fines and penalties shall be \$100,000 per **Claim**. This sublimit of Liability is part of and not in addition to the applicable Limits of Liability.

MANAGEMENT CONTROL

Management Control means:

1. owning interests representing more than 50% of the voting, appointment or designation power for the selection of a majority of the Board of Directors of a corporation; the management committee members of a joint venture; or the members of the management board of a limited liability company; or
2. having the right, pursuant to written contract or the by-laws, charter, operating agreement or similar documents of the **Insured Entity**, to elect, appoint or designate a majority of the Board of Directors of a corporation; the management committee of a joint venture; or the management board of a limited liability company.

MANAGER

Manager means any natural person manager, member of the management board or equivalent executive of an **Insured Entity** that is a limited liability company.

NAMED INSURED

Named Insured means the person or entity named in Item 1 of the Policy Declarations.

NO LIABILITY

No Liability means a final judgment of no liability obtained in favor of an **Insured Person** after the exhaustion of all appeals.

NON-INDEMNIFIABLE LOSS

Non-Indemnifiable Loss means **Loss** which the **Insured Entity** fails or refuses to indemnify an **Insured Person**:

1. because of **Financial Insolvency**; or,
2. because it is not permitted to indemnify pursuant to law or contract or the charter, bylaws, operating agreement or similar documents of the **Insured Entity** or **Plan**.

NOT-FOR-PROFIT OUTSIDE ENTITY

Not-For-Profit Outside Entity means any organization exempt from federal income taxation pursuant to 26 U.S.C. §501(c)(3), (4), (6), (7), and (10), as amended.

OCCURRENCE

Occurrence means an accident, including continuous or repeated exposure to substantially the same general harmful conditions.

OUTSIDE ENTITY

Outside Entity means any **Not-For-Profit Outside Entity**.

OUTSIDE ENTITY EXECUTIVE

Outside Entity Executive means an **Executive** of the **Insured Entity** who is or was acting as a member of the board of directors, board of trustees, board of managers, or functional equivalent thereof, in any **Not-For-Profit Outside Entity**, provided and so long as such service is at the specific request, consent or direction of the **Insured Entity**.

PENSION PLAN

Pension Plan means any employee pension benefit plan, as defined in 29 U.S.C. §1002, subject to regulation under **ERISA or any Similar Act**. However, **Pension Plan** shall not include an excess benefit plan as defined in 29 U.S.C. §1002 or an employee stock ownership plan as defined in 26 U.S.C. §4975.

PERSONAL/PROPRIETARY INJURY

Personal/Proprietary Injury means injury arising out of one or more of the following:

1. false arrest, detention or imprisonment, or malicious prosecution;
2. wrongful entry or eviction, or other invasion of the right of private occupancy;
3. libel, slander, or other forms of defamation;
4. plagiarism, misappropriation of ideas (including advertising ideas), or breach of confidentiality;
5. invasion, infringement or interference with the rights of privacy or publicity; or
6. infringement of copyright, title, slogan, logo, trademark, trade name, trade dress, service mark, or service name.

PLAN

Plan means:

1. any **Welfare Plan** or **Pension Plan** which was, on or prior to the effective date of this Policy, sponsored solely by the **Insured Entity**, or sponsored jointly by the **Insured Entity** and a labor organization, solely for the benefit of the **Employees** of the **Insured Entity**;
2. any **Welfare Plan** or **Pension Plan** which, after the effective date of this Policy, becomes sponsored solely by the **Insured Entity**, or jointly by the **Insured Entity** and a labor organization, solely for the benefit of the **Employees** of the **Insured Entity**, if and to the extent coverage with respect to such **Plan** is afforded pursuant to paragraph A of Section XII. **COVERAGE FOR NEW SUBSIDIARIES AND PLANS** of the General Terms and Conditions of this Policy;
3. any other plan or program otherwise described in paragraphs 1. and 2. above while such plan or program is being actively developed, formed or proposed by the **Insured Entity** prior to the formal creation of such plan or program; or,
4. any government-mandated insurance for workers' compensation, unemployment, social security or disability benefits for **Employees** of the **Insured Entity**.

Plan does not include any multi-employer plan as defined in **ERISA or any Similar Act**.

POLICY PERIOD

Policy Period means the period of time from the effective date and time of this Policy to the date and time of termination as shown in the Policy Declarations, or its earlier cancellation date. If the length of the **Policy Period** is the same as the **Policy Year**, the terms **Policy Period** and **Policy Year** are used interchangeably herein.

POLICY PREMIUM

Policy Premium means the original premium and the fully annualized amount of any additional premiums, other than the Extended Reporting Period premium, charged by the Insurer before or during the **Policy Period**.

POLICY YEAR

Policy Year means the period of one year following the effective date of the **Policy Period** or any subsequent one-year anniversary thereof. As permitted by individual state law, a **Policy Year** may be extended or reduced by endorsement or by termination of the Policy.

POLLUTANTS

Pollutants means any substance exhibiting hazardous characteristics as is or may be defined or identified on any list of hazardous substances issued by the United States Environmental Protection Agency or any state, local or foreign counterpart. **Pollutants** includes, without limitation, any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals or waste (including materials to be recycled, reconditioned or reclaimed), as well as any air emission, odor, waste water, oil or oil products, infectious or medical waste, asbestos, or asbestos products or any noise.

PROPERTY DAMAGE

Property Damage means:

1. physical injury to tangible property, including all resulting loss of use of that property. All such loss of use shall be deemed to occur at the time of the physical injury that caused it; or,
2. loss of use of tangible property that is not physically damaged except that with respect to the Technology & Telecommunications Liability **Coverage Part** such loss of use must be caused by an **Occurrence**.

When used in the Technology & Telecommunications Liability **Coverage Part** or the Network Security & Privacy Injury **Coverage Part**, **Property Damage** does not include electronic data. As used in this definition, electronic data means information, facts or programs stored as or on, created or used on, or transmitted to or from computer software, including systems and applications software, hard or floppy disks, CD-ROMS, tapes, drives, cells, data processing devices or any other media which are used with electronically controlled equipment.

SINGLE LOSS

Single Loss means all **Loss** arising from each **Claim**.

STOCK BENEFITS

Stock Benefits means:

1. any offering, plan or agreement between the **Named Insured** and any **Employee** which grants stock, stock warrants or stock options of the **Named Insured** to any such Employee, including but not limited to grants of stock options, restricted stock, stock warrants, performance stock shares, or any other compensation or incentive granted in the form of securities of the **Named Insured**; or

2. any payment or instrument in the amount or value of which is derived from the value of securities of the **Named Insured**, including but not limited to stock appreciation rights or phantom stock plans or arrangements.

However, **Stock Benefits** shall not include employee stock ownership plans or employee stock purchase plans.

SUBSIDIARY

Subsidiary means:

1. any not-for-profit entity in which the **Named Insured** has **Management Control** directly or indirectly through one or more other **Subsidiaries**:
 - a. on or before the effective date of this Policy; or
 - b. after the effective date of this Policy by reason of being created or acquired by the **Named Insured** and any **Subsidiary** after such date, if and to the extent coverage with respect to the entity is afforded pursuant to Section V., **COVERAGE FOR NEW SUBSIDIARIES** of this **Coverage Part**; or
2. any -for-profit entity formed by any **Insured Entity** and which is listed in a For Profit Insured Entity endorsement attached to this Policy.

However, when used in the Crime **Coverage Part**, **Subsidiary** has the meaning set forth therein.

TAKEOVER

Takeover means:

1. the acquisition by another entity or person, or group of entities or persons acting in concert, of:
 - a. the **Management Control** of the **Named Insured**; or,
 - b. assets of the **Named Insured** resulting in the ownership of more than 50% of the total consolidated assets of **Named Insured** as of the date of the **Named Insured's** most recent audited consolidated financial statement prior to such acquisition;
2. the merger of the **Named Insured** into another entity such that the **Named Insured** is not the surviving entity; or,
3. the consolidation of the **Named Insured** with another entity.

VOLUNTARY COMPLIANCE PROGRAM

Voluntary Compliance Program means any voluntary compliance resolution program or similar voluntary settlement program administered by the United States Internal Revenue Service, the United States Department of Labor or other similar governmental authority located outside the United States, including without limitation:

1. the Employee Plans Compliance Resolution System consisting of the Self-Correction Program, the Voluntary Compliance Resolution Program and the Audit Closing Agreement Program all as set forth in IRS Revenue Procedure 2003-44 (as amended, modified, expanded or superseded by any successor Revenue Procedure); or
2. Delinquent Filer Voluntary Compliance Program, and the Voluntary Fiduciary Correction Program administered by the Department of Labor.

WELFARE PLAN

Welfare Plan means any employee welfare benefit plan as defined in 29 U.S.C. §1002, subject to regulation under **ERISA or any Similar Act**. **Welfare Plan** shall not include an excess benefit plan as defined in 29 U.S.C. §1002.

WHISTLEBLOWER ACTIVITY

Whistleblower Activity means the kind of activity protected under a federal or state whistleblower statute or any regulation promulgated thereunder, regardless of whether or not such activity is done by an **Employee** protected under such statute or regulation.

WRONGFUL ACT

Wrongful Act has the meanings set forth below.

- I. When used in the Directors & Officers Liability **Coverage Part – Not-For-Profit Entities**, **Wrongful Act** means:
 1. any actual or alleged error, misstatement, misleading statement, act, omission, neglect or breach of duty (including **Personal Injury/Proprietary Injury** and violations of the privacy provisions of the Health Insurance Portability and Accountability Act (HIPAA)) committed or attempted by:
 - a. the **Insured Persons** in their capacity as such; or
 - b. the **Insured Entity** or by any natural person for whose **Wrongful Act** the **Insured** is legally responsible; or,
 2. any matter claimed against the **Insured Persons** solely by reason of their serving in such capacity.
- II. When used in the Employment Practices Liability **Coverage Part**, **Wrongful Act** means any actual or alleged error, misstatement, misleading statement, act, omission, neglect or breach of duty committed or attempted by the **Insured Persons** in their capacity as such or by an **Insured Entity**.
- III. When used in the Fiduciary Liability **Coverage Part**, **Wrongful Act** means:
 1. any actual or alleged error, omission, negligent act, misstatement, misleading statement, neglect or breach of duty imposed upon an **Insured** by **ERISA or any Similar Act**, solely in such **Insured's** capacity as a **Fiduciary** of a **Plan**, or any matter claimed against an **Insured** solely by reason of his, her or its status as a **Fiduciary** of a **Plan**;
 2. any actual or alleged error, omission, negligent act, misstatement, misleading statement, neglect or breach of duty committed or attempted by the **Insureds**, including any violation of regulation 45 CFR, Subchapter C, Part 164, under the Health Insurance Portability and Accountability Act of 1996, solely in such **Insured's** capacity as an **Administrator**; or,
 3. the failure to properly or timely provide COBRA notices, but only with respect to a **Plan**.

WRONGFUL EMPLOYMENT PRACTICE

Wrongful Employment Practice means any **Wrongful Act** constituting or relating to:

1. wrongful dismissal, discharge or termination of employment, whether actual or constructive;
2. employment-related misrepresentation;

3. violation of any federal, state or local laws (whether common-law or statutory) concerning employment or discrimination in employment, including the Americans with Disabilities Act of 1992, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1866 and the Family and Medical Leave Act of 1993;
4. sexual harassment or other unlawful harassment;
5. wrongful deprivation of career opportunity, demotion, failure to grant tenure, failure to employ or promote; failure to afford partnership or other equity status and failure to train;
6. wrongful discipline of **Employees**;
7. retaliation against **Employees** for the exercise of any legally protected right or for engaging in any legally protected activity;
8. negligent evaluation of **Employees**, negligent hiring, negligent supervision, and negligent training;
9. failure to adopt adequate workplace or employment policies and procedures;
10. employment-related libel, slander or defamation, humiliation or invasion of privacy;
11. employment-related wrongful infliction of emotional distress;
12. solely with respect to any natural person other than an **Employee**, any actual or alleged discrimination, sexual harassment or violation of an individual's civil rights relating to such discrimination or sexual harassment; or
13. breach of a written contract of employment.

I. INSURING AGREEMENT**A. Management Liability (Individual) – Non-Indemnifiable Loss**

The Insurer shall pay on behalf of the **Insured Persons** (including **Outside Entity Executives**) that **Loss** up to the applicable limit of liability, resulting from any **Claim** first made against them during the **Policy Period** or the Extended Reporting Period, if applicable, for a **Wrongful Act**, except and to the extent that the **Insured Entity** has indemnified them for such **Loss**.

B. Management Liability – Indemnifiable Loss

The Insurer shall pay on behalf of an **Insured Entity** that **Loss**, in excess of the retention (if any) and up to the applicable limit of liability, for which such **Insured Entity** has indemnified an **Insured Person** and which results from any **Claim** first made against such **Insured Person** during the **Policy Period** or the Extended Reporting Period, if applicable, for a **Wrongful Act**.

C. Insured Entity Liability

The Insurer shall pay on behalf of **Insured Entity** that **Loss**, in excess of the retention (if any) and up to the applicable limit of liability, resulting from any **Claim** first made during the **Policy Period** or the Extended Reporting Period, if applicable, against the **Insured Entity** for a **Wrongful Act**.

provided, however, that such **Claim** must be reported in accordance with Section **XXII. NOTICE/DATE OF CLAIM/INTERRELATED CLAIM CLAUSE** of the General Terms and Conditions for coverage to apply.

II. EXCLUSIONS**A. Exclusions Applicable to All Insureds**

The Insurer shall not be liable to pay any **Loss** under this **Coverage Part** in connection with any **Claim** made against any **Insured**:

1. Bodily Injury/Property Damage

for any actual or alleged bodily injury (including death), sickness, disease, emotional distress, mental anguish or humiliation of any person, or **Property Damage**;

2. Claims by Insured Entity

by or on behalf of any **Insured Entity** in any capacity provided, however that this exclusion shall not apply to:

- a. any **Claim** brought derivatively on behalf of the **Insured Entity** provided that such **Claim** is brought and maintained solely by persons acting independent of and without the solicitation, assistance, active participation or intervention of the **Insured Entity** or any **Executive** (unless such solicitation, assistance, participation or intervention is **Whistleblower Activity**); or
- b. any **Claim** that is in the form of a cross claim, third-party claim or otherwise for contribution or indemnity which is part of and results directly from a **Claim** which is not otherwise excluded under this Policy; or
- c. any **Claim** brought or maintained by or on behalf of a bankruptcy or insolvency trustee, examiner, liquidator, receiver, rehabilitator or creditors committee for an **Insured Entity** or any assignee of such trustee, examiner, liquidator, receiver or rehabilitator or creditors committee;

3. Discrimination or Harassment/Fair Labor Standards Act

by any third party or independent contractor alleging any actual or alleged:

- a. discrimination or harassment including but not limited to violation of any federal, state or local laws (whether common-law or statutory) concerning discrimination including the Americans with Disabilities Act of 1990, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights Act of 1964 and the Civil Rights Act of 1866; or
- b. violation of the Fair Labor Standards Act as amended, or any other federal, state or local statutory law or common law anywhere in the world governing wage, hour and payroll policies;

4. ERISA or any Similar Act

for any actual or alleged violation of the responsibilities, obligations or duties imposed upon fiduciaries by **ERISA or any Similar Act**;

5. Illegal Profits/Deliberate Acts

where:

- a. such **Insureds** in fact gained any profit, remuneration or pecuniary advantage to which they were not legally entitled;
 - b. such **Insureds** committed any fraudulent or criminal **Wrongful Act** with actual knowledge of its wrongful nature or with intent to cause damage or
 - c. such **Insureds** willfully violated any statute or regulation,
- as evidenced by a final adjudication by a judge, jury or arbitrator in any proceeding.

For purposes of determining the applicability of this exclusion:

1. the facts pertaining to and knowledge possessed by any **Insured Person** shall not be imputed to any other **Insured Person**; and
2. only facts pertaining to and knowledge possessed by any past, present or future Chief Executive Officer, Executive Director, Chairperson, Chief Financial Officer, President (or any equivalent position) of an **Insured Entity** shall be imputed to all **Insured Entities**;

6. Outside Entity vs. Insured Persons

made against an **Outside Entity Executive** by or on behalf of the **Outside Entity** or one or more of the **Outside Entity's** directors, officers, trustees, governors or equivalent executives; provided, however, that this exclusion shall not apply to:

- a. any **Claim** brought derivatively on behalf of the **Outside Entity** provided that such **Claim** is brought and maintained solely by persons acting independent of and without the solicitation, assistance, active participation or intervention of the **Outside Entity** or any **Outside Entity Executive** (unless such solicitation, assistance, participation or intervention is **Whistleblower Activity**);
- b. any Claim that is in the form of a crossclaim, third-party claim or otherwise for contribution or indemnity which is part of and results directly from a Claim which is not otherwise excluded under this Policy;
- c. any Claim brought or maintained by or on behalf of a bankruptcy or insolvency trustee, examiner, liquidator, receiver, rehabilitator or creditors committee for an Outside Entity or any assignee of such trustee, examiner, liquidator, receiver or rehabilitator or creditors committee;

- d. any Claim brought by any past directors, officers, trustees, governors or equivalent executives of an Outside Entity who has not served as a duly elected or appointed past directors, officers, trustees, governors or equivalent executives of for an Outside Entity for at least three (3) years prior to such Claim being first made against any person; or,
- e. any Claim brought and maintained by a director, officer, trustee or governor, management committee member or Manager of an Outside Entity in a jurisdiction outside the United States of America, Canada or Australia;

7. Pollutants

based upon or arising out of:

- a. any nuclear reaction, radiation or contamination, or any actual, alleged or threatened discharge, release, escape, or disposal of, or exposure to, **Pollutants**;
- b. any request, direction or order that any of the **Insureds** test for, monitor, clean up, remove, contain, treat, detoxify, neutralize or in any way respond to or assess the effect of **Pollutants** or nuclear reaction, radiation or contamination, or any voluntary decision to do so; or
- c. any actual or alleged **Property Damage**, bodily injury, sickness, disease or death of any person, or financial loss to the **Insured Entity** or any **Outside Entity**, their security holders, or their creditors resulting from any of the aforementioned matters;

However, this exclusion shall not apply to the extent there is no indemnification of the **Insured Persons** for such **Claim** by the **Insured Entity**;

8. Prior Notice

based upon or arising out of:

- a. any **Wrongful Act** or any matter, fact, circumstance, situation, transaction, or event which has been the subject of any notice given by an **Insured** under any policy of which this Policy is a direct or indirect renewal or replacement; or
- b. any other **Wrongful Act** whenever occurring, which, together with a **Wrongful Act** described in a. above, would constitute **Interrelated Wrongful Acts**;

9. Prior or Pending

based upon or arising out of or constituting any civil, criminal, administrative or regulatory or alternative dispute resolution proceeding or investigation against any of the **Insureds** which was pending on or prior to the Prior or Pending Date set forth in the Declarations or the same or essentially the same fact, circumstance, situation, transaction or event underlying or alleged in such proceeding or investigation;

10. Prior Wrongful Acts of Subsidiaries

for:

- a. any **Wrongful Act** by **Insured Persons** of any **Subsidiary** or by such **Subsidiary**, occurring before the date such entity became a **Subsidiary**; or,
- b. any other **Wrongful Act** whenever occurring, which, together with a **Wrongful Act** described in a. above, would constitute **Interrelated Wrongful Acts**;

11. Wrongful Acts of Executives of other Entities

for any **Wrongful Act** by such **Insured Person** while serving in the capacity, or solely by reason of their status, as a director, officer, trustee, governor, manager, employee or similar position in any entity, other than an **Insured Entity** or an **Outside Entity**.

B. Exclusions Applicable to the Insured Entity

The Insurer shall not be liable to pay any **Loss** under this **Coverage Part** in connection with any **Claim** made against the **Insured Entity**:

1. Employment Related Wrongful Acts

based upon or arising out of any employment-related **Wrongful Act**;

2. Violation of Law

for any actual or alleged violation of: the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), any law governing workers' compensation, unemployment insurance, social security, disability benefits; the Occupational Safety and Health Act of 1970 (OSHA), the Workers' Adjustment and Retraining Notification Act, Public Law 100-379 (1988), the National Labor Relations Act; and the Fair Labor Standards Act, all as amended, or any regulations thereunder or any similar federal, state or local statutory law or common law.

III. ORDER OF PAYMENTS

If the amount of any covered **Loss** which is otherwise due and owing by the Insurer under this **Coverage Part** exceeds the then-remaining Limit of Liability of this Policy, the Insurer shall pay such **Loss** under this **Coverage Part** (subject to such Limit of Liability) in the following priority:

- A.** first, the Insurer shall pay **Loss** to the **Insured Persons**; then
- B.** only after payment of **Loss** has been made pursuant to 1. above, with respect to whatever remaining amount of the Limit of Liability is available after such payment, at the written request of the chief executive officer, or equivalent officer, of the **Named Insured**, the Insurer shall either pay or withhold payment of such other **Loss** for which coverage is provided to the **Insured Entity**.

In the event the Insurer withholds payment pursuant to Paragraph 2. above, then the Insurer shall at such time and in such manner as shall be set forth in written instructions from the Chief Executive Officer, or equivalent officer, of the **Named Insured** remit such payment to an **Insured Entity** or directly to or on behalf of an **Insured Person**. The Insurer's liability with respect to any such delayed **Loss** payment shall not be increased, and shall not include any interest, on account of such delay.

The bankruptcy or insolvency of any **Insured Entity** or any **Insured Person** shall not relieve the Insurer of any of its obligations to prioritize payment of covered **Loss** under this **Coverage Part** pursuant to this Section.

IV. COORDINATION WITH EMPLOYMENT PRACTICES LIABILITY COVERAGE SECTION

If a **Claim** is covered under both this **Coverage Part** and the Employment Practices Liability **Coverage Part** then such **Claim** first shall be covered pursuant to the Employment Practices Liability **Coverage Part**, including its limit of liability and retention. Any remaining **Loss** otherwise covered by this **Coverage Part** which is not paid under such Employment Practices Liability **Coverage Part** shall be covered pursuant to this **Coverage Part**, including its limit of liability and retention; provided any applicable Retention under this **Coverage Part** shall be reduced by the amount of **Loss** (otherwise covered by this **Coverage Part**) which is paid by the **Insureds** as the retention under such Employment Practices Liability **Coverage Part**.

V. COVERAGE FOR NEW SUBSIDIARIES

A. If, after the effective date of this Policy:

1. an **Insured Entity** creates or acquires a not-for-profit entity, or
2. an **Insured Entity** merges with another not-for-profit entity such that an **Insured Entity** is the surviving entity,

then such entity, and any subsidiaries, directors, officers, trustees or employees of such entity who otherwise would thereby become an **Insured**, shall be automatically covered under this Policy, subject to its terms and conditions.

- B. There shall be no coverage for any **Wrongful Act** by such created, acquired or merged entity or **Plan**, or by any persons or entities considered to be **Insureds** pursuant to paragraph A of this Section, where such **Wrongful Act** occurred in whole or in part before the effective date of such acquisition or merger or for any **Wrongful Act** occurring on or after such date which, together with any **Wrongful Acts** occurring before such date, would be considered **Interrelated Wrongful Acts**.



**E-PACK
TEXAS - POLICY HOLDERS NOTICE**

IMPORTANT NOTICE

To obtain information or make a complaint:

You may call CNA toll-free telephone number:

1-312-822-5000

You may also write to CNA at:

CNA
333 S. Wabash Avenue
Chicago, Illinois 60604

You may contact the Texas Department of Insurance to obtain information on companies, coverages, rights or complaints at:

1-800-252-3439

You may write the Texas Department of Insurance
P. O. Box 149104
Austin, TX 78714-9104
FAX # (512) 490-1007

Web <http://www.tdi.texas.gov>
E-mail: ConsumerProtection@tdi.texas.gov

PREMIUM OR CLAIM DISPUTES:

Should you have a dispute concerning your premium or about a claim you should contact the (agent) (company) (agent or the company) first. If the dispute is not resolved, you may contact the Texas Department of Insurance

ATTACH THIS NOTICE TO YOUR POLICY: This notice is for information only and does not become a part or condition of the attached document.

AVISO IMPORTANTE

Para obtener informacion o para someter una queja:

Usted puede llamar al numero de telefono gratis CNA para informacion o para someter una queja al:

1-312-822-5000

Usado tambien puede escribir a CNA:

CNA
333 S. Wabash Avenue
Chicago, Illinois 60604

Puede comunicarse con el Departamento de Seguros de Texas para obtener informacion acerca de companias coberturas, derechos o quejas al:

1-800-252-3439

Puede escribir al Departamento de Seguros de Texas
P. O. Box 149104
Austin, TX 78714-9104
FAX # (512) 490-1007

Web <http://www.tdi.texas.gov>
E-mail: ConsumerProtection@tdi.texas.gov

DISPUTAS SOBRE PRIMAS O RECLAMOS:

Si tiene una disputa concerniente a su prima o a un reclamo, debe comunicarse con el (agente) (la compania) (agente o la compania) primero. Si no se resuelve la disputa, puede entonces comunicarse con el departamento (TDI).

UNA ESTE AVISO A SU POLIZA: Este aviso es solo para proposito de informacion y no se convierte en parte o condicion del documento adjunto.



POLICYHOLDER NOTICE

Economic and Trade Sanctions Conditions

Ethics and proper business conduct has been the cornerstone of CNA since 1897. While much has changed during the last century, our commitment to these core values has not wavered. We strongly believe that proper business conduct is more than the practice of avoiding wrong; it is also a matter of choosing to do right. Nowhere is this more essential than helping in the fight against terrorism. As such, we are committed to complying with U.S. Department of Treasury Office of Foreign Asset Control (OFAC) requirements.

Through a variety of laws, OFAC administers and enforces economic sanctions against countries and groups of individuals, such as terrorists and narcotics traffickers. These laws prohibit all United States citizens (including corporations and other entities) and permanent residents from engaging in transactions with sanctioned countries and with individuals and entities on the Specially Designated Nationals (SDN) list. Because all U.S. citizens and companies are subject to this law, we wanted to be sure you were aware of its scope and restrictions. If you haven't already done so, you may want to consider discussing this issue with your legal counsel to ensure you are in compliance.

For insurance companies, accepting premium from, issuing a policy to, insuring property of, or making a claim payment to an individual or entity that is the subject of U.S.-imposed economic sanctions or trade embargoes usually are violations of these laws and regulations. Fines for violating OFAC requirements can be substantial. CNA has established an OFAC compliance program part which includes the use of exclusionary policy language. We believe this makes good business sense for CNA and you.

The purpose of this letter is to advise you that your policy includes OFAC exclusionary policy language, which may reduce or eliminate certain coverage. Specifically, if it is determined that your policy violates certain Federal or State laws or regulations, such as the U.S. list of Specially Designated Nationals or Blocked Persons (organizations or individuals associated with terrorist groups), any term or condition of your policy will be null and void to the extent it violates the applicable laws or regulations of the United States.

We're sure you share our commitment to compliance and thank you for your cooperation.

Your policy language reads as follows:

ECONOMIC AND TRADE SANCTIONS CONDITION

The following condition is added to the Policy:

ECONOMIC AND TRADE SANCTIONS CONDITION

In accordance with laws and regulations of the United States concerning economic and trade embargoes, this policy is void from its inception with respect to any term or condition of this policy that violates any laws or regulations of the United States concerning economic and trade embargoes including, but not limited to the following:

1. Any insured, or any person or entity claiming the benefits of an insured, who is or becomes a Specially Designated National or Blocked Person or who is otherwise subject to U.S. economic or trade sanctions;
2. Any claim or "suit" that is brought in a Sanctioned Country or by a Sanctioned Country Government, where any action in connection with such claim or suit is prohibited by U.S. economic or trade sanctions;
3. Any claim or "suit" that is brought by any Specially Designated National or Blocked Person or any person or entity who is otherwise subject to U.S. economic or trade sanctions;
4. Property that is located in a Sanctioned Country or that is owned by, rented to or in the care, custody or control of a Sanctioned Country Government, where any activities related to such property are prohibited by U.S. economic or trade sanctions; or
5. Property that is owned by, rented to or in the care, custody or control of a Specially Designated National or Blocked Person, or any person or entity who is otherwise subject to U.S. economic or trade sanctions.



As used in this notice a Specially Designated National or Blocked Person is any person or entity that is on the list of Specially Designated Nationals and Blocked Persons issued by the U.S. Treasury Department's Office of Foreign Asset Control (OFAC) as it may be from time to time amended.

As used in this notice a Sanctioned Country is any country that is the subject of trade or economic embargoes imposed by the laws or regulations of the United States of America.

THIS DISCLOSURE NOTICE DOES NOT PROVIDE COVERAGE NOR DOES THIS NOTICE REPLACE ANY PROVISIONS OF YOUR POLICY. YOU SHOULD READ YOUR POLICY AND REVIEW YOUR DECLARATIONS PAGE FOR COMPLETE INFORMATION ON THE COVERAGE AND PRICE OF YOUR POLICY. IF THERE IS ANY CONFLICT BETWEEN THE POLICY AND THIS NOTICE, THE PROVISIONS OF THE POLICY SHALL PREVAIL. YOUR INDEPENDENT INSURANCE AGENT WILL BE ABLE TO EXPLAIN THE TERMS OF THE CONTRACT IN DETAIL.



STATE AMENDATORY INCONSISTENCY ENDORSEMENT

It is understood and agreed that in the event there is an inconsistency between a state amendatory endorsement attached to this Policy and any term or condition of this Policy or any other Endorsement attached to this Policy, then, where permitted by law, the Insurer shall apply those terms and conditions of the state amendatory endorsement, the Policy or any other Endorsement attached to this Policy which are more favorable to the **Insured**.

All other terms and conditions of the Policy remain unchanged.

This endorsement, which forms a part of and is for attachment to the Policy issued by the designated Insurers, takes effect on the effective date of said Policy at the hour stated in said Policy, unless another effective date is shown below, and expires concurrently with said Policy.



**AMEND ADDITIONAL LIMIT OF LIABILITY FOR NON-INDEMNIFIABLE LOSS PROVISION
ENDORSEMENT
(VARIABLE AMOUNT)**

It is understood and agreed that the General Terms and Conditions, the section entitled **LIMITS OF LIABILITY/RETENTIONS**, the paragraph entitled **Additional Limit of Liability for Non-Indemnifiable Loss** is deleted in its entirety and is replaced with the following:

Additional Limit of Liability for Non-Indemnifiable Loss

Solely with respect to Section I, INSURING AGREEMENT A. of the Directors & Officers Liability **Coverage Part**, there is an additional Limit of Liability which shall not exceed \$250,000 (the "non-indemnifiable **Loss** limit") per **Policy Year**. This non-indemnifiable **Loss** limit is available only after the applicable Limits of Liability as set forth in the Management Liability **Coverage Part** Declarations has been exhausted.

All other terms and conditions of the Policy remain unchanged.

This endorsement, which forms a part of and is for attachment to the Policy issued by the designated Insurers, takes effect on the effective date of said Policy at the hour stated in said Policy, unless another effective date is shown below, and expires concurrently with said Policy.



AMEND ERISA ENDORSEMENT SETTLOR EXCLUSION

In consideration of the premium paid for this Policy, it is understood and agreed that the Directors & Officers Liability **Coverage Part**, the Section **EXCLUSIONS**, the Paragraph entitled **Exclusions Applicable to All Insureds**, the Exclusion entitled **ERISA or any Similar Act** is deleted in its entirety and replaced with the following:

ERISA or any Similar Act

for any actual or alleged violation of **ERISA or any Similar Act** or any other federal, state or local statutory law or common law anywhere in the world governing any employee benefit program, policy, plan or arrangement of any type, including but not limited to laws governing retirement or pension benefit programs, welfare plans, insurance plans, employee stock options, employee stock ownership or employee stock purchase plans or deferred compensation programs;

All other terms and conditions of the Policy remain unchanged.

This endorsement, which forms a part of and is for attachment to the Policy issued by the designated Insurers, takes effect on the effective date of said Policy at the hour stated in said Policy, unless another effective date is shown below, and expires concurrently with said Policy.



AMENDED CONTRACTUAL LIABILITY LANGUAGE IN DEFINITION OF LOSS ENDORSEMENT

In consideration of the premium paid for this policy, it is understood and agreed as follows:

1. Solely with respect to the Directors & Officers Liability **Coverage Part, INSURING AGREEMENTS A. Management Liability (Individual) – Non-Indemnifiable Loss** and **B. Management Liability – Indemnifiable Loss**, the **GLOSSARY OF DEFINED TERMS**, the definition of **Loss**, the section entitled “I. Directors & Officers Liability **Coverage Part, Loss** does not include:” is deleted in its entirety and replaced with the following:

I. Directors & Officers Liability Coverage Part, Loss does not include:

1. civil or criminal fines, penalties, taxes, sanctions or forfeitures imposed on an **Insured** whether pursuant to law, statute, regulation or court rule, other than those civil fines or penalties imposed under 42 USC 1320d-5(a) of the Health Insurance Portability and Accountability Act of 1996, provided however that the maximum limit of the Insurer's liability for all such fines and penalties shall be \$100,000 per **Claim**. This sublimit of Liability is part of and not in addition to the applicable Limits of Liability;
2. any amount (other than **Defense Costs**) attributable to the cost of any non-monetary relief, including without limitation any costs associated with compliance with any injunctive relief of any kind or nature; or
3. compensation earned by the claimant in the course of employment but unpaid by the **Insured**, including salary, wages, commissions, severance, bonus or incentive compensation.

2. Solely with respect to the Directors & Officers Liability **Coverage Part, INSURING AGREEMENT C. Insured Entity Liability**, the **GLOSSARY OF DEFINED TERMS**, the definition of **Loss**, the section entitled “I. Directors & Officers Liability **Coverage Part, Loss** does not include:” is deleted in its entirety and replaced with the following:

I. Directors & Officers Liability Coverage Part, Loss does not include:

1. civil or criminal fines, penalties, taxes, sanctions or forfeitures imposed on an **Insured** whether pursuant to law, statute, regulation or court rule, other than those civil fines or penalties imposed under 42 USC 1320d-5(a) of the Health Insurance Portability and Accountability Act of 1996, provided however that the maximum limit of the Insurer's liability for all such fines and penalties shall be \$100,000 per **Claim**. This sublimit of Liability is part of and not in addition to the applicable Limits of Liability;
2. any amount (other than **Defense Costs**) attributable to the cost of any non-monetary relief, including without limitation any costs associated with compliance with any injunctive relief of any kind or nature;
3. any amounts arising out of the **Insured's** actual or alleged violation of any written contract or agreement or due to the **Insured's** assumption of the liability of others under any contract or agreement; or
4. compensation earned by the claimant in the course of employment but unpaid by the **Insured**, including salary, wages, commissions, severance, bonus or incentive compensation.

All other terms and conditions of the Policy remain unchanged.

This endorsement, which forms a part of and is for attachment to the Policy issued by the designated Insurers, takes effect on the effective date of said Policy at the hour stated in said Policy, unless another effective date is shown below, and expires concurrently with said Policy.

AMEND PUBLIC OFFERINGS EXCLUSION - JOBS ACT LIABILITY EXCLUDED

In consideration of the premium paid for this Policy, it is agreed and understood that, with respect to the **EXCLUSIONS** section of the Directors & Officers Liability **Coverage Part**, the exclusion entitled **Public Offerings** is deleted in its entirety and replaced with the following:

- **Public Offerings**

The Insurer shall not be liable to pay any **Loss** under this **Coverage Part** in connection with any **Claim** made against any **Insured** based upon or arising out of any actual or alleged:

- a. public offer, sale, advertisement, solicitation or distribution of securities issued by the **Insured** or any **JOBS Act Offering** by the **Insured**; or
- b. violation of any federal, state, local or provincial statute relating to securities or any rules or regulations promulgated thereunder, if such violation actually or allegedly occurred in connection with any conduct described in a. above;

However this exclusion shall not apply:

1. to the extent that such **Claim** is made by a security holder of the **Insured Entity** for the failure of the **Insured Entity** to undertake or complete an initial public offering or sale of securities of the **Insured Entity**;
2. to any offer, purchase or sale of securities, whether debt or equity, that is not a **JOBS Act Offering** and is in a transaction that is exempt from registration under the Securities Act of 1933; or

For the purposes of this exclusion, **JOBS Act Offering** means any conduct that is governed by the Jumpstart Our Business Startups Act of 2012, or any equivalent state, local, or provincial statute or regulation, or any rules and regulations promulgated thereunder, including any actual or alleged advertisement, solicitation, crowdfunding, offering, distribution, issuance, sale, purchase, or transaction of securities.

All other terms and conditions of the Policy remain unchanged.

This endorsement, which forms a part of and is for attachment to the Policy issued by the designated Insurers, takes effect on the effective date of said Policy at the hour stated in said Policy, unless another effective date is shown below, and expires concurrently with said Policy.



**CAP ON LOSSES FROM CERTIFIED ACTS OF TERRORISM
ENDORSEMENT**

SCHEDULE

D&O Not-For-Profit.

Solely with respect to any Coverage Part set forth in the Schedule, it is understood and agreed as follows:

Whenever used in this endorsement, 1) "we" means the insurer listed on the Declarations or the Certificate of Insurance, as applicable; and 2) "you" means the first person or entity named on the Declarations or the Certificate of Insurance, as applicable.

A. Cap on Certified Terrorism Losses

"Certified act of terrorism" means an act that is certified by the Secretary of the Treasury, in consultation with the Secretary of Homeland Security and the Attorney General of the United States, to be an act of terrorism pursuant to the Terrorism Risk Insurance Act, as extended and reauthorized (the "Act"). The criteria contained in the Act for a "certified act of terrorism" include the following:

1. The act resulted in insured losses in excess of \$5 million in the aggregate, attributable to all types of insurance subject to the Terrorism Risk Insurance Act; and
2. The act is a violent act or an act that is dangerous to human life, property or infrastructure and is committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

If aggregate insured losses attributable to terrorist acts certified under the Act exceed \$100 billion in a calendar year (January 1 through December 31) and we have met our insurer deductible under the Act, we shall not be liable for the payment of any portion of the amount of such losses that exceeds \$100 billion, and in such case insured losses up to that amount are subject to pro rata allocation in accordance with procedures established by the Secretary of the Treasury.

B. Application of Exclusions

The terms and limitations of any terrorism exclusion, or the inapplicability or omission of a terrorism exclusion, do not serve to create coverage for any loss which would otherwise be excluded under this Policy, such as losses excluded by the Nuclear Hazard Exclusion or the War And Military Action Exclusion.

All other terms and conditions of the Policy remain unchanged.

This endorsement, which forms a part of and is for attachment to the Policy issued by the designated Insurers, takes effect on the effective date of said Policy at the hour stated in said Policy, unless another effective date is shown below, and expires concurrently with said Policy.

AMENDATORY ENDORSEMENT - TEXAS

In consideration of the premium paid, it is agreed that the General Terms & Conditions are amended as follows:

- I. The following paragraph is added to Section **XVIII. EXTENDED REPORTING PERIOD, Automatic Extended Reporting Period**:

Automatic Extended Reporting Period

If the Insurer or the **Named Insured** cancels or non-renews this Policy, the **Named Insured** shall be provided, at no additional charge, an extension of this Policy for a period of 30 days immediately following the end of the **Policy Period**, but only to the extent a **Claim** is first made or deemed to be first made during such period for **Wrongful Act** committed before the earlier of the end of the **Policy Period** or the effective date of any **Takeover**.

This period shall be referred to as the **Automatic Extended Reporting Period**.

- II. **Section XVIII. EXTENDED REPORTING PERIOD, Paragraph C. Non-Cancellation/Premium Fully Earned** is deleted in its entirety and replaced with the following:

C. Non-Cancellation/Premium Fully Earned

If the Extended Reporting Period is purchase, it is non-cancelable.

- III. **Section V. APPLICATION, Item B.** is deleted in its entirety and replaced with the following:

- B. In the event the **Application** contains any material misrepresentation or omission made with the intent to deceive, or which materially affects either the acceptance of the risk or the hazard assumed by the Insurer under the Policy then this Policy shall be voided as to:
1. the **Insured Entity**, if the Chief Executive Officer, Chairperson, Chief Financial Officer, President (or any equivalent position), or the signer of the **Application** knew of such materially misrepresentation or omission and,
 2. any **Insured Persons** who knew of such material misrepresentation or omission. Such knowledge shall not be imputed to any other **Insured Persons**.

Notwithstanding anything to the contrary in this Policy and solely to the extent there is a **Non-Indemnifiable Loss**, the Insurer shall not seek to rescind the Policy with respect to any **Insured Person** for any reason.

All other terms and conditions of the Policy remain unchanged.

This endorsement, which forms a part of and is for attachment to the Policy issued by the designated Insurers, takes effect on the effective date of said Policy at the hour stated in said Policy, unless another effective date is shown below, and expires concurrently with said Policy.

CANCELLATION/NON-RENEWAL ENDORSEMENT-TEXAS

Wherever used in this endorsement: 1) Insurer means “we”, “us”, “our” or the “Company” as those terms are defined in the policy; and 2) Named Insured means the first person or entity named on the declarations page; and 3) “Insured(s)” means all persons or entities afforded coverage under the policy.

Any cancellation, non-renewal or termination provision(s) in the policy are deleted in their entirety and replaced with the following:

CANCELLATION AND NON-RENEWAL**A. CANCELLATION**

1. The Named Insured may cancel the policy at any time. To do so, the Named Insured must return the policy to the Insurer or any of its authorized representatives, indicating the effective date of cancellation; or provide a written notice to the Insurer, stating when the cancellation is to be effective.
2. The Insurer has the right to cancel this Policy at any time and for any reason within the first sixty (60) days. Notice of cancellation must be mailed at least ten (10) days prior to the effective date of such cancellation.
3. After this policy has been in effect for sixty (60) days or more, or if it is a renewal or continuation of a policy issued by the Insurer, it may be canceled for one or more of the following reasons:
 - a. Nonpayment of premium.
 - b. Fraud in obtaining coverage
 - c. Increase in hazard, within the insured's control, that produces a rate increase.
 - d. Loss of reinsurance, covering all or part of the risk covered by the policy; or
 - e. If the Insurer is placed in supervision, conservatorship, or receivership and the cancellation is approved or directed by the supervisor, conservator or receiver.

Written notice of cancellation must be mailed or delivered to the Named Insured at the last mailing address known to the Insurer at least ten (10) days prior to the effective date of such cancellation. The grounds for such cancellation shall also be stated.

4. Notice of cancellation will state the date the cancellation is effective. The Policy will end on that date. If notice is mailed, proof of mailing will be sufficient proof of notice.

B. NON-RENEWAL

1. Insurer can non-renew the policy by mailing or delivering advance written notice to the Named Insured, at the last mailing address known to the Insurer, at least sixty (60) days before the expiration date. The notice shall include the reason for such nonrenewal.
2. If the Insurer fails to provide the required renewal notice, coverage shall remain in effect until the 61st day after the date on which notice is delivered or mailed. The earned premium for any period of coverage that extends beyond the expiration date of this policy shall be computed pro-rata based on the previous year's rate.

A transfer of a policyholder between two admitted companies within the same insurance group is not considered a refusal to renew.

C. OTHER CANCELLATION/NONRENEWAL PROVISIONS

The Insurer may not cancel or non-renew based solely on the fact that the Named Insured is an elected official.



All other terms and conditions of the policy remain unchanged.

This endorsement, which forms a part of and is for attachment to the Policy issued by the designated Insurers, takes effect on the effective date of said Policy at the hour stated in said Policy and expires concurrently with said Policy unless another effective date is shown below.

By Authorized Representative _____
(No signature is required if issued with the Policy or if it is effective on the Policy Effective Date)



Policy Holder Notice – Countrywide

IMPORTANT INFORMATION

NOTICE – OFFER OF TERRORISM COVERAGE; DISCLOSURE OF PREMIUM

THIS NOTICE DOES NOT FORM A PART OF THE POLICY, GRANT ANY COVERAGE OR CHANGE THE TERMS AND CONDITIONS OF ANY COVERAGE UNDER THE POLICY.

As used herein, 1) “we” means the insurer listed on the Declarations or the Certificate of Insurance, as applicable; and 2) “you” means the first person or entity named on the Declarations or the Certificate of Insurance, as applicable.

You are hereby notified that under the Terrorism Risk Insurance Act, as extended and reauthorized (“Act”), you have a right to purchase insurance coverage of losses arising out of acts of terrorism, as defined in Section 102(1) of the Act, subject to all applicable policy provisions. The Terrorism Risk Insurance Act established a federal program within the Department of the Treasury, under which the federal government shares, with the insurance industry, the risk of loss from future terrorist attacks.

This Notice is designed to alert you to coverage restrictions and to certain terrorism provisions in the policy. If there is any conflict between this Notice and the policy (including its endorsements), the provisions of the policy (including its endorsements) apply.

CHANGE IN THE DEFINITION OF A CERTIFIED ACT OF TERRORISM

The Act applies when the Secretary of the Treasury certifies that an event meets the definition of an act of terrorism. Originally, the Act provided that to be certified, an act of terrorism must cause losses of at least five million dollars and must have been committed by an individual or individuals acting on behalf of any foreign person or foreign interest to coerce the government or population of the United States. However, the 2007 re-authorization of the Act removed the requirement that the act of terrorism must be committed by or on behalf of a foreign interest, and now certified acts of terrorism may encompass, for example, a terrorist act committed against the United States government by a United States citizen, when the act is determined by the federal government to be “a certified act of terrorism.”

In accordance with the Act, we are required to offer you the ability to purchase coverage for losses resulting from an act of terrorism that is certified under the federal program. The other provisions of this policy, including nuclear, war or military action exclusions, will still apply to such an act.

DISCLOSURE OF FEDERAL PARTICIPATION IN PAYMENT OF TERRORISM LOSSES

The Department of the Treasury will pay a share of terrorism losses insured under the federal program. In 2015, the federal share equals 85% of that portion of the amount of such insured losses that exceeds the applicable insurer retention, and shall decrease by 1 percentage point per calendar year until equal to 80%.

LIMITATION ON PAYMENT OF TERRORISM LOSSES

If aggregate insured losses attributable to terrorist acts certified under the Terrorism Risk Insurance Act exceed \$100 billion in a calendar year (January 1 through December 31), the Treasury shall not make any payment for any portion of the amount of such losses that exceeds \$100 billion.

**Policy Holder Notice – Countrywide**

Further, this coverage is subject to a limit on our liability pursuant to the federal law where, if aggregate insured losses attributable to terrorist acts certified under the Act exceed \$100 billion in a calendar year (January 1 through December 31) and we have met our insurer deductible under the Act, we shall not be liable for the payment of any portion of the amount of such losses that exceeds \$100 billion. In such case, insured losses up to that amount are subject to pro rata allocation in accordance with procedures established by the Secretary of the Treasury.

CONFIRMATION OF ACCEPTANCE OF COVERAGE

In accordance with the Act, we offered you coverage for losses resulting from an act of terrorism that is certified under the federal program. This notice confirms that you have chosen to accept our offer of coverage for certified acts of terrorism. The policy's other provisions, including nuclear, war or military action exclusions, will still apply to such an act. The premium charge for terrorism coverage, if any, is shown separately on the Declarations or the Certificate of Insurance, as applicable.

Subsection 2

Errors and Omissions Liability Insurance

This endorsement forms a part of the Declarations to which attached, effective on the inception date of the coverage unless otherwise stated herein, and modifies such coverage as is afforded by the provisions of the coverage shown below:

General Liability
Law Enforcement Liability
Errors and Omissions Liability
Automobile Liability

It is agreed that the "Covered Parties" provisions of the coverages listed above are amended to include as a covered party the organization named below, subject to the following limitations:

1. Coverage does not apply to any claim or suit arising out of any occurrence or wrongful act related to or concerning projects which are not or will not be located within the geographical boundaries or the extraterritorial jurisdiction of the Member entity named below.
2. Coverage does not include any claim or claims arising from wrongful acts which took place prior to the date such organization was added as a covered party.

Name of Organization(s)

Gulf Coast Small Business Finance Corporation
Emissions Reduction Credit Corporation
H-GAC Energy Purchasing Corporation
Gulf Coast Economic Development District
H-GAC Corporation for Regional Excellence
Houston-Galveston Area Local Development Corporation
Gulf Coast Regional 9-1-1 Emergency Communications District

Entity Name Houston/Galveston Area COG
Entity ID 6159

Contract Type / ID . . . LIAB / 20 10-01-18 to 10-01-19
Endorsement ID
Endorsement Effective . . 10-01-18

Texas Municipal League Intergovernmental Risk Pool

COWENS 8-28-18 10:29:49

EL205
4-24-04

TAB 4

ANALYSIS

OF 504

EMPLOYMENT

IMPACT

Exhibit 1

CDC Name: Houston-Galveston Area Local Development Corporation
 States Reported: TX
 (For Multi-State)

CDC Fiscal Year Ending: 12/31/2018

Debentures Funded Less Than 2 YearsEstimated Job Opportunity Section

SBA Loan No	Company Name	Date Funded	504 Approval Amount	Created ¹	Retained ²	Total
723-874-5003	Sleep Inn	09/13/2017	1,564,000.00	18.00	0.00	18.0
746-201-5001	Deluxe Inn & Suites-Baytown	06/14/2017	683,000.00	1.00	0.00	1.0

Totals	2		\$2,247,000.00	19.0	0.0	19.0
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Manufacturing	¹⁰	\$0.00	0.0	0.0	0.0	⁶
Other Than Manufacturing	¹¹	\$2,247,000.00	19.0	0.0	19.0	⁷

Debentures Funded 2 or More YearsActual Job Opportunity Section

SBA Loan No	Company Name	Date Funded	503/504 Approval Amount	Date Verified ⁵	Created ³	Retained ⁴	Total	Difference bet. Estimate and Actual	Public Policy Loan?
246-952-6008	A & S Engineers, Inc.	10/15/2008	636,000.00		1.00	0.00	1.0	0.00	Yes
353-805-5001	ABC Dual Language Center, LLC	02/16/2011	144,000.00		8.00	0.00	8.0	0.00	
155-122-6006	Access Physical Therapy	11/15/2006	281,000.00		2.00	0.00	2.0	0.00	
572-527-5002 M	ADDI, LLC	10/16/2013	290,000.00	01/12/2015	13.00	0.00	13.0	8.00	Yes
369-032-5004	Advanced Pain Management Specialists of Ba	04/13/2011	466,000.00		2.00	5.00	7.0	0.00	
852-464-4007	Amaya's Collision Center, Inc.	08/17/2005	93,000.00		2.00	0.00	2.0	0.00	
305-720-6004	Anderson Mill Animal Clinic	03/12/2008	446,000.00		12.00	0.00	12.0	0.00	No
352-013-6010	Anna M. Munne, DDS, PA	05/11/2011	1,333,000.00		1.00	5.00	6.0	0.00	
405-744-5004	Apple Termite & Pest Control, Inc.	07/14/2010	184,000.00		7.00	14.00	21.0	0.00	
361-888-6010	Asad Abbas, MD, PA	02/17/2010	281,000.00	01/13/2016	6.00	0.00	6.0	-1.00	
741-689-4010	Asia Auto Care	02/14/2007	215,000.00		9.00	0.00	9.0	0.00	
529-975-5000	Barrett Vending, LLC	02/13/2013	196,000.00	03/18/2015	4.00	0.00	4.0	0.00	
902-250-4005	Baycenter Family Physician, PA	01/17/2007	229,000.00		11.00	0.00	11.0	7.00	
277-025-6009	Baymont Inn & Suites(Tyler)	10/14/2009	988,000.00		12.00	0.00	12.0	-8.00	
295-146-6001	Bayou Pines Care Center	09/16/2009	1,279,000.00		177.00	0.00	177.0	17.00	
604-913-5004	Berryhill - Oak Forest	06/17/2015	1,548,000.00	10/30/2017	0.00	0.00	0.0	-36.00	
860-176-4002	Best Western Heritage Inn	06/15/2005	711,000.00		6.00	0.00	6.0	5.00	
747-162-4002	Better Beginnings Children's Center	08/16/2006	427,000.00		10.00	0.00	10.0	1.00	
336-820-6001	Billang, Ltd. Co.	07/14/2010	1,035,000.00		14.00	6.00	20.0	-6.00	
310-992-6000 M	Business Cards Tomorrow	11/12/2008	467,000.00		18.00	0.00	18.0	-7.00	Yes
724-247-4001	Café Piquet, Inc.	10/13/2004	254,000.00		4.00	0.00	4.0	-2.00	
391-625-5000	Cates Control Systems, Inc.	10/13/2010	617,000.00		17.00	52.00	69.0	5.00	
469-700-5010	Cavazos Funeral Home Inc	03/14/2012	211,000.00	01/16/2014	2.00	0.00	2.0	-2.00	
767-556-5006	Celina Moving & Storage, LLC	06/15/2016	515,000.00	07/16/2018	2.00	10.00	12.0	12.00	Yes
306-328-6002	Chalet Chrystale Event Center	01/16/2008	497,000.00		1.00	0.00	1.0	0.00	
147-966-4000	Cheddars	02/17/1999	483,000.00		0.00	0.00	0.0	0.00	
525-243-4005	Cheddar's	08/14/2002	548,000.00		90.00	0.00	90.0	37.00	
311-299-6000	Cheri's Food Store	06/17/2009	379,000.00		5.00	0.00	5.0	0.00	

309-155-6008	Children's Lighthouse Saginaw	01/14/2009	712,000.00		16.00	0.00	16.0	1.00	
359-932-6010	China Harbor	09/16/2009	636,000.00		21.00	0.00	21.0	8.00	
528-313-5008	Cigar Frog's	09/11/2013	375,000.00	01/20/2015	5.00	0.00	5.0	-1.00	
515-934-5004	Color Interiors	08/14/2013	441,000.00	04/08/2015	8.00	18.00	26.0	1.00	
365-833-6003	Comfort Inn & Suites	04/15/2009	1,157,000.00		13.00	0.00	13.0	0.00	
271-210-6001	Comfort Inn & Suites(Winnie)	06/17/2009	1,146,000.00		7.00	0.00	7.0	0.00	
970-877-4010	Comfort Suites	05/17/2006	822,000.00		8.00	0.00	8.0	-2.00	Yes
256-626-6004	Complete Health Care Services, PA	10/13/2010	1,127,000.00		7.00	20.00	27.0	2.00	
345-188-6007	Country Inn & Suites	10/13/2010	1,479,000.00		12.00	0.00	12.0	-3.00	Yes
378-538-5003	Creacom, Inc.	03/16/2011	561,000.00		11.00	35.00	46.0	0.00	
615-157-4007	Crestmont Washateria and Crestmont Park St	03/15/2006	400,000.00		2.00	0.00	2.0	-1.00	
359-429-6004 M	D & S Machine Works, Inc.	02/11/2009	328,000.00		11.00	0.00	11.0	4.00	Yes
407-993-4003	Dawson Safe & Lock Services, Inc.	09/11/2002	148,000.00		5.00	0.00	5.0	0.00	
882-054-4006	Days Inn & Suites Webster	05/17/2006	713,000.00		2.00	0.00	2.0	1.00	
265-380-6009	A to Z Food & Deli (Texaco)	04/11/2007	722,000.00		0.00	0.00	0.0	-5.00	
734-503-4001	DD's Express Mart	03/16/2005	291,000.00		4.00	0.00	4.0	-3.00	
447-623-5005	Denny's 8683	06/15/2011	989,000.00		4.00	7.00	11.0	0.00	
731-247-4008	Denny's Baytown	08/17/2005	326,000.00		12.00	0.00	12.0	-8.00	
558-109-4000	Discovery Playhouse Learning Center, Inc.	03/17/2004	234,000.00		21.00	0.00	21.0	-12.00	Yes
305-631-6000	Dog's Day Inn	07/15/2009	512,000.00		12.00	0.00	12.0	0.00	
894-140-4006	Dogs Day Out Bed & Biscuit	08/15/2007	426,000.00		11.00	0.00	11.0	1.00	
308-420-6010	Don Carlos Mexican Restaurant	12/17/2008	772,000.00		32.00	0.00	32.0	-8.00	
303-887-6000	Donna C. Rich, MD, PA	04/16/2008	284,000.00		4.00	0.00	4.0	0.00	
812-367-4004	EagleInn & Suites	07/11/2007	341,000.00		5.00	0.00	5.0	0.00	
563-696-4010	El Palenque Mexican Restaurant	05/12/2004	423,000.00		47.00	0.00	47.0	2.00	No
250-120-6007	Ennis Chiropractic, PLLC	04/11/2007	242,000.00		4.00	0.00	4.0	-1.00	
348-474-5000	Eve's Custom Jewelry & Repair, Inc.	05/12/2010	266,000.00		2.00	5.00	7.0	0.00	
876-952-4004	Excel Carpets, Inc.	11/15/2006	357,000.00		7.00	0.00	7.0	-1.00	
250-774-6006	Executive Inn & Suites	02/14/2007	523,000.00		8.00	0.00	8.0	3.00	
304-381-6009	Freer Motel	04/16/2008	175,000.00		4.00	0.00	4.0	2.00	
362-484-5009	Frostwood Chiropractic of Katy	03/17/2010	153,000.00		7.00	3.00	10.0	0.00	
329-641-6005	G & L Installations, Inc.	05/13/2009	691,000.00	01/13/2015	22.00	0.00	22.0	22.00	
482-892-5005	G & L Installations, Inc.	10/17/2012	156,000.00	01/13/2015	22.00	0.00	22.0	22.00	
750-814-4005	G. White Salon	11/15/2006	292,000.00		14.00	0.00	14.0	-3.00	
335-996-5008	Georgetown Family & Geriatric Medicine, PLLC	09/16/2009	146,000.00		7.00	0.00	7.0	4.00	
325-096-6000	Giant China Buffet	11/12/2009	1,425,000.00		23.00	3.00	26.0	0.00	
557-116-5000	Gloria's Midtown Houston, Inc.	06/12/2013	1,819,000.00	01/08/2015	73.00	0.00	73.0	73.00	Yes
396-498-5001	Gloria's Restaurant #1	10/12/2011	1,042,000.00		8.00	12.00	20.0	0.00	
973-460-4009	Golf Cars of Houston, LP	06/14/2006	212,000.00		4.00	0.00	4.0	-2.00	
279-572-6004	Great Wall Restaurant	09/12/2007	1,042,000.00		15.00	0.00	15.0	0.00	
902-704-4008	Greens Mart, Inc.	01/11/2006	294,000.00		2.00	0.00	2.0	1.00	
382-118-5000	Hastings Law Firm, PC	08/11/2010	349,000.00		4.00	5.00	9.0	-2.00	
908-734-4006	Henderson's ATA Blackbelt Academy, LLC	03/14/2007	228,000.00		9.00	0.00	9.0	4.00	
315-729-6006	Hitek Maxey Gas & Food Mart and Hitek Maxe	12/16/2009	1,134,000.00		0.00	0.00	0.0	-12.00	
928-490-4007	Hi-Tek Washateria	03/15/2006	523,000.00		0.00	0.00	0.0	-7.00	
291-985-6000	Holiday Inn Express & Suites	06/17/2009	1,328,000.00	01/13/2016	9.00	0.00	9.0	-2.00	
245-653-6001	HSE Medical Associates, LLP	12/17/2008	857,000.00		12.00	3.00	15.0	-6.00	
347-273-5000	Huselton and Osina Dentistry Partnership and	06/16/2010	478,000.00		5.00	11.00	16.0	4.00	
938-993-4001	IESmart Systems, LLC	06/14/2006	280,000.00		47.00	0.00	47.0	-3.00	
257-098-6000	Inn of Uvalde	04/11/2007	1,035,000.00		0.00	0.00	0.0	-4.00	No
625-774-4008	Import World	11/17/2004	442,000.00		6.00	0.00	6.0	1.00	
464-003-4000 M	ITD Precision	02/12/2003	480,000.00		40.00	0.00	40.0	25.00	Yes
720-698-4004 M	ITD Precision	01/12/2005	407,000.00		0.00	0.00	0.0	-9.00	Yes

486-920-5008 M	ITD Precision	05/15/2013	439,000.00	01/09/2015	223.00	0.00	223.0	213.00	Yes
265-363-6006 M	ITD Precision and Pelletizer Knives, Inc.	03/11/2009	844,000.00		7.00	0.00	7.0	2.00	Yes
348-482-5000	Jacinto Medical Group, P.A.	08/17/2011	392,000.00		7.00	122.00	129.0	0.00	
617-185-5001	JL United Realty, LLC	09/11/2013	209,000.00	04/07/2015	4.00	6.00	10.0	0.00	Yes
335-267-6008	KFL Investments, Inc.	04/14/2010	1,743,000.00		47.00	4.00	51.0	0.00	
271-194-6004	Kids R Kids #47 TX	04/16/2008	950,000.00		18.00	0.00	18.0	-12.00	
793-921-4004	Kobe Steak House	09/13/2006	353,000.00		24.00	0.00	24.0	-8.00	No
394-421-5007	Lake Olympia Animal Hospital	09/14/2011	746,000.00		16.00	35.00	51.0	0.00	No
901-205-4008	La Porte Travel Plaza	04/16/2008	1,128,000.00		5.00	0.00	5.0	0.00	
728-358-4006	Leeland/ Sam, LP & Shower Solutions	12/15/2004	293,000.00		36.00	0.00	36.0	24.00	Yes
303-423-6010	Lisa Motel	03/12/2008	567,000.00		7.00	0.00	7.0	3.00	
277-687-6008	Lyndon's Pit Bar-B-Q	07/16/2008	583,000.00		17.00	0.00	17.0	4.00	
568-188-4009	MAACO Auto Painting and Bodyworks	11/12/2003	251,000.00		9.00	0.00	9.0	0.00	
439-336-4007	Magnolia Inns & Suites	09/11/2002	358,000.00		2.00	1.00	3.0	-3.00	
325-818-6007	Michael F. Bardwil, MD, PA	08/12/2009	650,000.00		4.00	0.00	4.0	0.00	
385-479-5002	Midway Car Wash & Detail	04/14/2010	539,000.00		0.00	20.00	20.0	0.00	
361-940-5001	MODCO Industries, LLC	11/17/2010	746,000.00	12/19/2013	11.00	0.00	11.0	-1.00	
278-166-6009	Molen & Associates, LLC	12/17/2008	576,000.00		19.00	0.00	19.0	7.00	
349-528-5010	Monira Hamid-Kundi, MD, PA	08/11/2010	275,000.00		1.00	1.00	2.0	0.00	
357-287-6000	Morrell Masonry Supply, Inc.(San Antonio)	12/16/2009	427,000.00		10.00	0.00	10.0	0.00	
261-931-6000	Mr. Mechanic, LLC	10/17/2007	243,000.00		9.00	0.00	9.0	3.00	
344-926-6010	Neal & Company and Neal & Lozano	03/11/2009	819,000.00		12.00	0.00	12.0	-5.00	
393-807-5006	Oakdale Private School, LLC	12/15/2010	809,000.00		0.00	54.00	54.0	0.00	
917-641-4005	Pang Bros, Inc.	09/17/2008	1,478,000.00		22.00	0.00	22.0	-8.00	
175-402-6005	Pearle Vision	04/16/2008	198,000.00		8.00	0.00	8.0	2.00	Yes
457-675-4009	Peggy's Childcare Incorporated	01/15/2003	320,000.00		20.00	0.00	20.0	10.00	Yes
982-456-4003 M	Pelletizer Knives, Inc.	03/12/2008	2,355,000.00		0.00	0.00	0.0	-20.00	Yes
281-070-6008	Pem-Tech, Inc.	05/14/2008	548,000.00		9.00	0.00	9.0	-2.00	
894-418-4007	Peter C. Gambertoglio, DDS, PA	11/16/2005	459,000.00		3.00	0.00	3.0	-7.00	
317-540-6006	Plateau Truck Stop	05/14/2008	652,000.00	06/10/2015	0.00	0.00	0.0	0.00	
352-187-6000	Pollo Campero	06/16/2010	562,000.00		18.00	0.00	18.0	-7.00	
388-791-5008 M	Portagas, Inc.	10/13/2010	899,000.00		12.00	0.00	12.0	-2.00	Yes
376-112-4005	Premier Auto Service	05/16/2001	234,000.00		3.00	0.00	3.0	-4.00	
252-280-6009	Psychiatric Services of Houston and Associate	06/13/2007	610,000.00		8.00	0.00	8.0	-5.00	
423-175-4003 M	Q Environmental, Inc.	11/17/2004	183,000.00		7.00	0.00	7.0	0.00	Yes
284-079-6003	R.L. Hart Construction, Inc.	06/11/2008	267,000.00		6.00	0.00	6.0	0.00	
349-500-6003	Ramada Inn #24633	04/13/2011	1,359,000.00		7.00	0.00	7.0	0.00	
328-505-6009	Richmont Dental Care, PLLC	01/13/2010	200,000.00		1.00	1.00	2.0	0.00	Yes
279-745-6010	Robert S. Warwick, DDS, PC	08/13/2008	400,000.00		7.00	0.00	7.0	-1.00	
685-297-4001	Rosegarden Suites	05/17/2006	317,000.00		3.00	0.00	3.0	-2.00	
296-670-6004	Royal Equipment, Inc.	04/15/2009	922,000.00		10.00	0.00	10.0	0.00	No
323-925-6009 M	Safety RX Services and Supply Corp.	03/16/2011	478,000.00		3.00	19.00	22.0	0.00	Yes
326-244-6005 M	Saint Arnold Brewing Company	09/15/2010	2,359,000.00		11.00	22.00	33.0	2.00	Yes
405-819-4007	Scott Tate Photography, Inc.	10/18/2001	98,000.00		9.00	0.00	9.0	-7.00	
604-534-4004	Scottish Inn & Suites	07/14/2004	480,000.00		0.00	0.00	0.0	-16.00	
451-329-4005	Scream World	06/11/2003	219,000.00		25.00	0.00	25.0	18.00	
800-649-4010	Sealy Shell	06/15/2005	409,000.00		3.00	0.00	3.0	0.00	
367-801-6009	Shady Brook Animal Hospital	10/14/2009	167,000.00		3.00	0.00	3.0	0.00	Yes
374-867-5008	Slater Gym, LLC	09/15/2010	591,000.00		23.00	0.00	23.0	-7.00	
254-481-6002	Stone Castle Industries, Inc.	02/14/2007	405,000.00		9.00	0.00	9.0	0.00	Yes
626-581-4005	Subway Subs & Salads	04/13/2005	254,000.00		8.00	0.00	8.0	-2.00	No
279-066-6000	Super 8 Motel	08/15/2007	826,000.00		6.00	0.00	6.0	0.00	
341-104-6008	Super 8 Motel - East Beltway 8	01/13/2010	646,000.00		8.00	0.00	8.0	0.00	

243-246-6010	Super Express	04/16/2008	415,000.00		5.00	0.00	5.0	0.00	
372-038-5002	TDH Services, Inc.	02/17/2010	118,000.00		2.00	3.00	5.0	0.00	
368-528-5000	Texas Institute of Chest and Sleep Disorders,	02/16/2011	655,000.00		2.00	15.00	17.0	0.00	
517-069-4009	Texas International Motors	09/15/2004	455,000.00		2.00	15.00	17.0	-1.00	
547-881-5000	Texas One Volleyball	11/13/2013	906,000.00	01/08/2015	12.00	0.00	12.0	-4.00	
292-830-6001	The Great Rug Company	01/16/2008	687,000.00		2.00	0.00	2.0	1.00	
386-229-5005	The Haston Law Firm, P.C.	12/15/2010	312,000.00		5.00	4.00	9.0	0.00	
321-381-6002	The Kids Arena Academy	02/17/2010	446,000.00		20.00	0.00	20.0	0.00	
339-785-5000	Tiny Treasures Learning Center, Inc.	05/11/2011	364,000.00		5.00	10.00	15.0	0.00	Yes
177-698-4009	Todd Street Properties, LTD.	09/16/1998	540,000.00		27.00	47.00	74.0	0.00	No
472-183-4006	Todo Supermarket	01/15/2003	179,000.00		4.00	0.00	4.0	0.00	
368-614-6002	Tong Xin Chinese School	11/12/2009	537,000.00		11.00	0.00	11.0	0.00	
725-908-4009	Tornados Volleyball Camps, Inc.	08/17/2005	1,040,000.00		9.00	0.00	9.0	-11.00	
341-244-6001	Town & Country Ultra Wash	07/14/2010	416,000.00		4.00	0.00	4.0	0.00	No
559-392-4008	Tri-Mart Express	03/17/2004	516,000.00		4.00	0.00	4.0	0.00	
369-944-6008	Trison International, Inc.	05/12/2010	271,000.00		6.00	12.00	18.0	-1.00	
270-586-6008 M	Valsource International, LLC	07/16/2008	1,046,000.00		0.00	9.00	9.0	-10.00	Yes
906-789-4010	Velvet Melvin Pub	11/16/2005	92,000.00		2.00	0.00	2.0	-1.00	
327-236-6009	VIP Bubbles, LLC	10/15/2008	396,000.00		0.00	0.00	0.0	-3.00	
269-079-6007	Voss Road Animal Clinic	03/11/2009	327,000.00		6.00	0.00	6.0	6.00	
345-464-5004	Winds of Change Cosmetic Surgery Specialist	01/12/2011	320,000.00		2.00	4.00	6.0	0.00	Yes
580-549-4002 M	WOI	05/14/2003	295,000.00		18.00	0.00	18.0	6.00	Yes
776-050-4008	WSI Services, Inc.	02/17/2006	576,000.00		12.00	0.00	12.0	4.00	
301-180-6001	WSI Servies Inc.	08/12/2009	1,291,000.00		13.00	0.00	13.0	0.00	
316-856-6010	Yellow Rose Travel Plaza	07/11/2012	1,500,000.00	03/25/2015	45.00	0.00	45.0	30.00	
905-468-4007	Your Perfect Smile	10/11/2006	438,000.00		4.00	0.00	4.0	-4.00	

Totals	160		\$93,467,000.00		2032.0	618.0	2650.0	297.0	38
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Manufacturing	¹²	\$ 10,870,000.00		363.0	50.0	413.0
Other Than Manufacturing	¹³	\$82,597,000.00		1,669.0	568.0	2,237.0

- ¹ Job Creation Estimates as Indicated on Application
² Jobs to be Retained as Indicated on Application
³ Actual Job Creation as Reported on 2-Year Anniversary
⁴ Actual Job Retention as Reported on 2-Year Anniversary
⁵ Only Required for Debentures Funded in Fiscal Year 2015 or Later
^M Manufacturing project

Summary Section

Estimated Jobs Created/Retained From Debentures Funded 2 Years or Less

Other than Manufacturing

19.0 ⁷ from above

Manufacturing

0.0 ⁶ from above

Actual Jobs Created/Retained From Debentures Funded 2 or More Years

Other than Manufacturing

2,237.0 ⁹ from above

Manufacturing

+ 413.0 ⁸ from above

Total Jobs Created/Retained To Date

2,669.0 ¹⁴

Sum of Debentures Funded 2 Years or Less

Other than Manufacturing

\$2,247,000.00 ¹¹ from above

Manufacturing	\$0.00	¹⁰ from above
Sum of Debentures Funded 2 Years or More		
Other than Manufacturing	\$82,597,000.00	¹³ from above
Manufacturing	+ \$10,870,000.00	¹² from above
	<u>\$95,714,000.00</u>	¹⁵
Sum of Debentures Funded		

Job Creation Average Calculation	\$95,714,000.00	¹⁵ from total
(All Loans)	divide by 2,669.0	¹⁴ from total
	<u>\$35,861.37</u>	

Job Creation Average Calculation*	\$84,844,000.00	¹¹⁺¹³ from above
(Without Manufacturing Jobs)	divide by 2256.0	⁷⁺⁹ from above
	<u>\$37,608.16</u>	*Report as Annual Jobs Ratio

Job Creation Average Calculation	\$10,870,000.00	¹⁰⁺¹² from above
of Manufacturing Jobs (M)	divide by 413.0	⁶⁺⁸ from above
	<u>\$26,319.61</u>	

TAB 5

REPORT ON **COMPENSATION**

Sections 1- 5 are satisfied below:

REPORT ON COMPENSATION

None of the H-GALDC officers (both former and current) receive any monetary compensation for their work with the CDC.

H-GALDC had one contractor and one Service Agreement in effect during the calendar year. Neither was paid more than \$100,000 in Year 2018.

The H-GALDC does not have employees; all staff are leased from H-GAC - the sponsoring organization. A copy of the H-GALDC and H-GAC Management Agreement may be located in TAB 2, Section C, Subsection 2 (Contract with Houston-Galveston Area Council).

Detailed compensation for current and former employees is listed below.

H-GALDC Staff Compensation

Current Employees					
Name	Title	Hours Charged	Time Percentage	Earnings	Notes
Omar Fortune	Manager	605	32%	\$ 27,341.32	Full-time, Program Staff
Timothy Oyewale	Loan Specialist	1773	99%	\$ 37,505.85	Full-time, Program Staff
Judy Przyborski	Loan Specialist	1723	100%	\$ 50,815.28	Full-time, Program Staff
Phillipe Achondo	Web Administrator	1.9998	1%	\$ 75.39	Support Role
Shaun Downie	Accounting Administrator	199.492	11%	\$ 8,437.60	Support Role
Nancy Haussler	Chief Financial Officer	44.4277	3%	\$ 3,819.66	Support Role
Jean Mahood	Assistant Director of Finance and Accounting	28.9975	2%	\$ 2,108.20	Support Role
Charles Wemple	Executive Director	53.9999	3%	\$ 4,126.41	Support Role
Subtotal Current Employees		4429.9169		\$ 134,229.71	

Former Employees						
Name	Title	Hours Charged	Time Percentage	Earnings	Notes	End Date
Jalkeetna Brady	Credit Administrator	808	100%	\$ 19,811.53	Full-time, Program Staff	Sept 2018
Anita Kendrick	Loan Coordinator	314	100%	\$ 11,020.21	Full-time, Program Staff	March 2018
LaTisha Venters	Manager	878.0001	97%	\$ 39,865.29	Full-time, Program Staff	July 2018
Andrea Tantillo	Senior Communications Coordinator	45.5	3%	\$ 1,440.95	Support Role. No longer supporting the CDC.	Sept 2018
Subtotal Former Employees		2045.5001		\$ 72,137.98		

Grand Total All Employees for 2018		6475.417		\$ 206,367.69	
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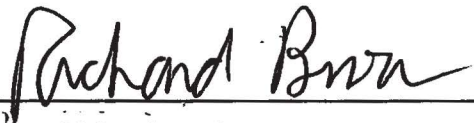
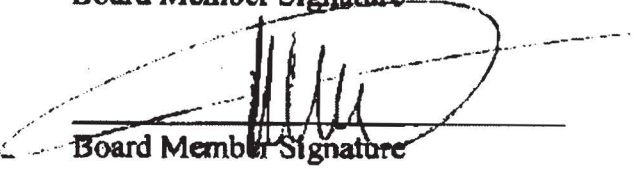
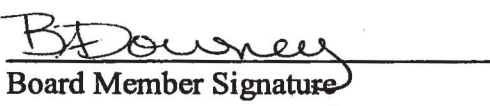
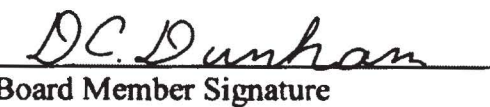
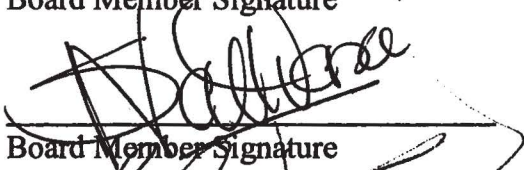
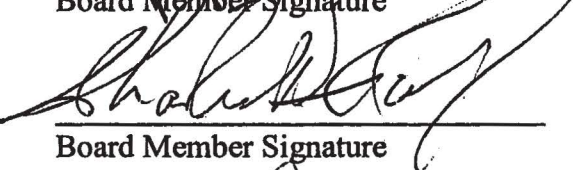
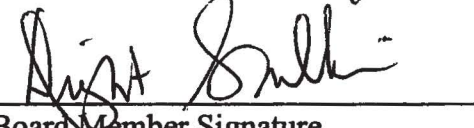
TAB 6

CERTIFICATION **OF BOARD OF** **DIRECTORS**

BOARD MEMBER ACKNOWLEDGEMENT

The Board Members of H-GALDC acknowledge that they have read and understand Section §120.823 of the Federal Register.

The Board Members of H-GALDC acknowledge that they have received and read the H-GALDC 2018 Independent Loan Review.

Richard Brown	 Board Member Signature	<u>5/7/2019</u> Date
Jackie Bryan	 Board Member Signature	<u>4/19/2019</u> Date
Brandi Downey	 Board Member Signature	<u>5/7/19</u> Date
DC Dunham	 Board Member Signature	<u>May 7, 2019</u> Date
Carolyn Gibson	 Board Member Signature	<u>5/7/19</u> Date
Colleen McGrath	 Board Member Signature	 Date
Salim Nathani	 Board Member Signature	<u>05.07.2019</u> Date
Charles Rushing	 Board Member Signature	<u>5-7-2019</u> Date
Dwight Sullivan	 Board Member Signature	<u>5-7-09</u> Date