RETIREMENT PLAN FOR EMPLOYEES OF THE HOUSTON-GALVESTON AREA COUNCIL

(A Component Unit of the Houston-Galveston Area Council)

Houston-Galveston Area Council

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2022
HOUSTON, TEXAS

DRAFT

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Opinion

We have audited the financial statements of the Retirement Plan for Employees of Houston-Galveston Area Council (the Plan), a fiduciary component unit of Houston-Galveston Area Council, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan, as of December 31, 2022, and the changes in fiduciary net position in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the Plan, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [_____________, _____], on our consideration of the Plan'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's 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 the Plan's internal control over financial reporting and compliance.

Houston, Texas
[Date of the auditor's report]

Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)
Management's Discussion and Analysis (Unaudited)
December 31, 2022

As management of the Houston-Galveston Area Council (H-GAC), we offer readers of the Retirement Plan for Employees of H-GAC (a component unit of Houston-Galveston Area Council) (the Plan) financial statements this narrative overview and analysis of the financial activities of the Plan for the year ended December 31, 2022.

Financial Highlights

The fiduciary net position of the Plan at December 31, 2022 and 2021, was $43,469,954 and $54,283,772, respectively. The entirety of net position is held in trust for the payment of future employee retirement benefits.

The Plan's net position restricted for pensions decreased $10,813,818 and increased $7,015,892 for the years ended December 31, 2022 and 2021, respectively.

The investment earnings on the Plan's assets decreased $16,403,864 and $1,076,382 for the years ended December 31, 2022 and 2021, respectively.

H-GAC and its employees are the only contributors to the Plan. Contributions totaled $2,869,261 and $2,764,493 for the years ended December 31, 2022 and 2021, respectively.

Benefit payments are the primary expense of the Plan. Such payments were $4,152,475 and $2,622,237 for the years ended December 31, 2022 and 2021, respectively. Other deductions of the Plan include administrative expenses, which totaled $2,211 and $1,671 for the years ended December 31, 2022 and 2021, respectively.

Overview of the Financial Statements

Our discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The Plan's financial statements are composed of financial statements and notes to the financial statements. The financial statements consist of two statements: (1) statement of fiduciary net position and (2) statement of changes in fiduciary net position. These statements present information on all the Plan'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 Plan is improving or deteriorating. The statement of changes in fiduciary net position presents information showing how the Plan's net position changed during the year. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Statements of Fiduciary Net Position

	2022	2021
Mutual funds and money market funds	$ 42,643,229	$ 53,627,562
Notes receivable from participants	826,725	656,210
Net position restricted for pensions	$ 43,469,954	$ 54,283,772

Statements of Changes in Fiduciary Net Position

	2022	2021
Net position restricted for pensions, beginning of year	$ 54,283,772	$ 47,267,880
Net (depreciation) appreciation in fair value of investments	(12,026,384)	2,850,060
Dividends	2,465,335	3,992,755
Interest income on notes receivable from participants	32,656	32,492
Contributions	2,869,261	2,764,493
Benefits paid to participants	(4,152,475)	(2,622,237)
Administrative expenses	(2,211)	(1,671)
Net position restricted for pensions, end of year	$ 43,469,954	$ 54,283,772

There was a significant decrease to net position restricted for pensions of $10,813,818 or 19.9 percent. While contributions from participants in the Plan were approximately the same from 2021 to 2022, the Plan's investments decreased in value by $14,876,444 and dividend income decreased by $1,527,420. These decreases are consistent with the decreases in the related investment indexes (NASDAQ, DOW, etc.) during 2022.

The Plan also paid employees who left employment, retired or otherwise took withdrawals permitted under IRS guidance or the Plan's rules during the year. Payments of $1,711,068 or 83.5 percent of Plan distributions were paid to departing employees of the Plan. This reflects an increase of $458,525 of distributions from the Plan from 2021.

Economic Factors

During 2022, the national economy was emerging from the COVID pandemic. As businesses reopened and consumers returned to normal activities, the supply chain showed the impact of the shutdown with shortages, from dairy products to lumber. These shortages as well as governmental stimulus funds triggered inflation. The Federal Reserve responded by raising interest rates seven times during the year. The stock market reacted to the economic uncertainties with erratic and generally lower earnings during the year. The consequence of these conditions is that the Retirement Fund had a decline in fair value of $12,026,384 or 22% from the previous year.

Request for Information

This financial report is designed to provide a general overview of the Plan'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, Texas 77227-2777.

Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)
Statement of Fiduciary Net Position
December 31, 2022

Assets

Investments		
Investments, at fair value:		
Mutual funds	$	37,381,846
Money market funds		5,261,383
Total investments, at fair value		42,643,229
Receivables		
Notes receivable from participants		826,725
Net Position Restricted for Pensions	$	43,469,954

Retirement Plan for Employees of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)
Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2022

Additions	
Investment Income (Loss)	
Net depreciation in fair value of investments	$ (12,026,384)
Dividends	2,465,335
Net investment loss	(9,561,049)
Interest Income on Notes Receivable from Participants	32,656
Contributions	
Employer	1,185,812
Participants	1,683,449
Total contributions	2,869,261
Total additions, net	(6,659,132)
Deductions	
Benefits paid to participants	4,152,475
Administrative expenses	2,211
Total deductions	4,154,686
Change in Net Position Restricted for Pensions	(10,813,818)
Net Position Restricted for Pensions, Beginning of Year	$ 54,283,772
Net Position Restricted for Pensions, End of Year	$ 43,469,954

Note 1: Description of the Plan

The following description of the Retirement Plan for Employees of Houston-Galveston Area Council (a component unit of Houston-Galveston Area Council) (the Plan) provides only general information. The Plan is sponsored by Houston-Galveston Area Council (the Sponsor) and is a fiduciary component unit of the Sponsor. Participants should refer to the *Plan Document* for a more complete description of the Plan's provisions. The Sponsor's corporate offices are located in Houston, Texas.

General

The Plan was effective January 1, 1975, and the latest restatement and amendment date was effective December 31, 2021. The Plan is a defined contribution plan for the benefit of the Sponsor's employees who have completed six months of service and are at least 21 years of age. The Plan is subject to the provisions of Texas Government Code Title 8, Subtitle A. It is not subject to the provisions of Title I of the *Employee Retirement Income Security Act of 1974* (ERISA). Membership in the Plan as of December 31, 2022, was 340 participants.

Plan Administration

The Plan is administered by a committee appointed by the Sponsor's Board of Directors. The committee is responsible for establishing Plan benefits, contributions, and other provisions, and for approving all Plan amendments. Fidelity Management Trust Company (Fidelity) manages the assets and performs recordkeeping duties for the Plan.

Contributions

All eligible employees of the Sponsor participate in the Plan. Each participant in the Plan is required to make a contribution at a rate of three percent of the participant's compensation. The Sponsor is required to make contributions at a rate of seven percent of each participant's compensation. Annual compensation in excess of $305,000 (as adjusted by the Secretary of the Treasury for increases in the cost of living) shall be disregarded. Both the employee and employer contributions are invested in accordance with the participant's investment election.

Participants may also make voluntary after-tax contributions to the Plan. Rollovers from Section 403(b) or 457 retirement plans are permitted. Employees eligible for catch-up contributions may make additional pre-tax catch-up contributions subject to Internal Revenue Code (IRC) limits.

Participant Accounts

Each participant's account is credited with the participant's contributions, allocations of the Sponsor's contributions and plan earnings. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the Sponsor contribution portion of their accounts plus earnings thereon is based on years of service as follows:

Length of Service	Vesting Percentage
Less than three years	0%
Three years, but less than four years	25%
Four years, but less than five years	50%
Five years, but less than six years	75%
Six years or more	100%

Notes Receivable from Participants

Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum equal to the lesser of $50,000 or 50 percent of their vested account balance. Loan terms range up to five years or longer for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates as determined quarterly by the Plan Administrator. Interest is charged at prime rate plus one percent. Principal and interest is paid ratably through payroll deductions.

Payment of Benefits

The death, retirement or total and permanent disability of a Plan participant entitles the participant (or the participant's beneficiaries) to receive 100 percent of the amount credited to the participant's accounts in the Plan. Normal retirement age is 65.

Upon severance of the Plan participant's employment for any reason other than those previously mentioned, the severance benefit shall equal the sum of the following:

1) 100 percent of required and voluntary participant contributions and earnings; thereon; and

2) The participant's vesting percentage multiplied by the sum of Sponsor contributions and the applicable earnings.

Hardship withdrawals are limited to the employee portion of contributions and require a minimum withdrawal of $500.

All withdrawals are distributed in a lump sum payment.

In accordance with the automatic rollover requirements imposed by Section 401(a)(31) of the IRC, effective March 28, 2005, the Plan was amended to establish default procedures whereby any terminated employee who fails to make a distribution election will receive the following:

1) If the Plan benefit is greater than $1,000, the participant is deemed to have elected to have their entire Plan benefit paid in an automatic rollover; and

2) If the Plan benefit is $1,000 or less, the participant is deemed to have elected to receive a lump sum cash distribution of their entire Plan benefit.

Forfeited Accounts

Upon termination of employment, any portion of a participant's employer contributions and earnings thereon that are not vested are forfeited. Forfeited amounts remain in the Plan and can be used to reduce future required Sponsor contributions or pay the Plan's administrative expenses. At December 31, 2022, forfeited nonvested accounts totaled $97,284 and forfeitures used to offset employer contributions totaled $188,670.

Participant Investment Account Options

Each participant has the option of directing their contributions in one percent increments into any of the various investment options offered by the Plan and may change the allocation quarterly.

Plan Expenses

The Plan waives participant fees other than those paid via the participants' investments. All remaining Plan expenses are paid by the Plan as provided in the *Plan Document*.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. All economic resources, including financial assets and related liabilities both current and long-term, and changes therein are reported in the financial statements. Additions, including contributions, are recognized when earned and deductions are recognized when the underlying transaction or event occurs, regardless of the timing of the related cash flows. The Plan applies all effective pronouncements of the Governmental Accounting Standards Board (GASB).

Investment Valuation and Income Recognition

The investments of the Plan are stated at fair value, which are based on the hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 are significant other observable inputs and Level 3 are significant unobservable inputs

Purchases and sales of securities are recorded on a trade basis. The net appreciation (depreciation) in fair value of investment securities consists of the net change in unrealized appreciation (depreciation) in fair value and realized gains (losses) upon the sale of investments. The net change in unrealized appreciation (depreciation) in fair value and unrealized gains (losses) upon sale are determined using the fair values as of the beginning of the year or the purchase price if acquired since that date. Dividends are recorded on the ex-dividend date.

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

Notes Receivable from Participants

Notes receivable from participants are reported at their unpaid principal balance plus any accrued but unpaid interest. Delinquent participant loans are reclassified as distributions based upon the terms of the *Plan Document*.

Administrative Expenses

Administrative expenses include fees charged to participant accounts, as provided by the *Plan Document*.

Use of Estimates

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

Note 3: Tax Status

The IRS has determined and informed the Sponsor by a letter, dated August 28, 2010, that the Plan and related trust are designed in accordance with applicable sections of the IRC. Although the Plan has been amended since receiving the determination letter, the Plan Administrator and the Plan's tax counsel believe that the Plan is designed, and is currently being operated, in compliance with the applicable requirements of the IRC and, therefore, believe that the Plan is qualified, and the related trust is tax exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

Note 4: Plan Termination

Although it has not expressed any intent to do so, the Sponsor has the right under the Plan to discontinue its contributions at any time and to terminate the Plan. In the event of Plan termination, participants would become 100 percent vested in their employer contributions.

Note 5: Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the participants' account balances and the amounts reported in the statement of fiduciary net position.

Note 6: Investments

Investments held as of year-end are as follows.

		December 31, 2022
Money market funds:		
Fidelity Government Money Market Fund	$	5,261,383
Mutual funds:		
American Beacon Small Cap Value Fund		$530,212
Cohen & Steers Institutional Reality Shares		$211,917
Fidelity Balanced Fund		$1,479,748
Fidelity Blue Chip Growth Fund		$3,000,583
Fidelity Diversified International Fund		$851,030
Fidelity Freedom 2010 Fund		$7,007
Fidelity Freedom 2015 Fund		$201,931
Fidelity Freedom 2020 Fund		$1,713,446
Fidelity Freedom 2025 Fund		$3,834,805
Fidelity Freedom 2030 Fund		$2,242,360
Fidelity Freedom 2035 Fund		$1,904,493
Fidelity Freedom 2040 Fund		$2,760,698
Fidelity Freedom 2045 Fund		$1,664,205
Fidelity Freedom 2050 Fund		$1,102,957
Fidelity Freedom 2055 Fund		$813,769
Fidelity Freedom 2060 Fund		$100,798
Fidelity Freedom 2065 Fund		$21,393
Fidelity Freedom Income Fund		$16,612
Fidelity Growth Company Fund		$3,310,623
Fidelity Mid Cap Stock Fund		$862,182
Fidelity 500 Index Fund		$4,305,808
Fidelity Extended Market Index Fund		$528,337
Fidelity Global ex U.S. Index Fund		$570,561
Fidelity U.S. Bond Index Fund		$688,959
Fidelity Value Fund		$439,339
Invesco Diversified Dividend Fund		$780,196
Janus Henderson Triton Fund		$10,157
PIMCO Total Return Fund		$825,557
Allspring Small Company Growth R6		$454,937
Galliard Retirement Income Fund Fee CL F35		$2,147,226
Total mutual funds		37,381,846
Total investments	$	42,643,229

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 5,261,383	$ 5,261,383	$ -	$ -
Mutual funds	37,381,846	37,381,846	-	-
Total	$ 42,643,229	$ 42,643,229	$ 0	$ 0

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no investments classified as Level 2 or 3 as of December 31, 2022.

Interest Rate Risk and Credit Risk

GASB Statement No. 40 requires interest rate risk disclosures and the disclosures of credit ratings for mutual funds that invest exclusively in debt securities. The Plan has no mutual funds subject to these disclosures. The required disclosures for the money market funds are as follows:

	Fair Value December 31, 2022	Weighted-average Maturity (Days)	Credit Rating
Money market funds	$ 5,261,383	8	AAA

Concentration Risk

GASB Statement No. 40 requires the identification of any investment comprising five percent or more of the Plan's total investments. Mutual funds and similar pooled investments are designed to provide diversification and are excluded from this disclosure requirement. The Plan has no investments subject to concentration risk disclosures.

Note 7: Related Party Transactions

Certain Plan investments are shares of mutual funds managed by Fidelity, which is the trustee as defined by the Plan. Fees incurred by the Plan for the investment management services are included in net depreciation in fair value of investments, as they are paid through revenue sharing, rather than a direct payment. The Plan paid $2,211 of administrative fees to Fidelity during the year ended December 31, 2022. The Sponsor provides certain administrative services at no cost to the Plan.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Retirement Committee
Retirement Plan for Employees of Houston-Galveston Area Council
Houston, Texas

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 (*Government Auditing Standards*), the financial statements of the Retirement Plan for Employees of Houston Galveston Area Council (the Plan), a component unit of Houston-Galveston Area Council, which comprise the Plan's statement of fiduciary net position as of December 31, 2022, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated [__________ __, ____].

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 entity'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan'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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Houston, Texas
[Date of the auditor's report]

Houston-Galveston
Area Council

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