



2021

**Retirement Plan for Employees of
Houston-Galveston Area Council**
(A Component Unit of Houston-Galveston Area Council)

Independent Auditor's Report and Financial Statements

December 31, 2021
Houston, Texas

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**Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)
December 31, 2021**

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Independent Auditor's Report

Retirement Committee
Retirement Plan for Employees of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)
Houston, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Retirement Plan for Employees of Houston-Galveston Area Council (A Component Unit of Houston-Galveston Area Council) (the Plan), as of and for the year ended December 31, 2021, 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 Retirement Plan for Employees of Houston-Galveston Area Council (A Component Unit of Houston-Galveston Area Council), as of December 31, 2021, and the changes in fiduciary net position for the year then ended 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. 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 the 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.

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 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2022, on our consideration of 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 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 Plan's internal control over financial reporting and compliance.

BKD, LLP

Houston, Texas
May 26, 2022

**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, 2021**

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, 2021.

Financial Highlights

The fiduciary net position of the Plan, at December 31, 2021 and 2020, was \$54,283,772 and \$47,267,880, 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 increased \$7,015,892 and \$7,040,665 for the years ended December 31, 2021 and 2020, respectively.

The investment earnings on the Plan's assets decreased \$1,076,382 and increased \$1,140,889 for the years ended December 31, 2021 and 2020, respectively.

H-GAC and its employees are the only contributors to the Plan. Contributions totaled \$2,764,493 and \$2,633,099 for the years ended December 31, 2021 and 2020, respectively.

Benefit payments are the primary expense of the Plan. Such payments were \$2,622,237 and \$3,549,698 for the years ended December 31, 2021 and 2020, respectively. Other deductions of the Plan include administrative expenses, which totaled \$1,671 and \$1,800 for the years ended December 31, 2021 and 2020, 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

	2021	2020
Mutual funds and money market funds	\$ 53,627,562	\$ 46,591,861
Notes receivable from participants	656,210	676,019
Net position restricted for pensions	\$ 54,283,772	\$ 47,267,880

Statements of Changes in Fiduciary Net Position

	2021	2020
Net position restricted for pensions, beginning of year	\$ 47,267,880	\$ 40,227,215
Net appreciation in fair value of investments	2,850,060	5,821,381
Dividends	3,992,755	2,097,816
Interest income on notes receivables from	32,492	39,867
Contributions	2,764,493	2,633,099
Benefits paid to participants	(2,622,237)	(3,549,698)
Administrative expenses	(1,671)	(1,800)
Net position restricted for pensions, end of year	\$ 54,283,772	\$ 47,267,880

There was a significant increase to net position restricted for pensions of \$7,015,892 or 14.8 percent. While contributions from participants in the Plan were approximately the same from 2020 to 2021, the Plan's appreciation on investments decreased by \$2,971,321 and dividend income increased by \$1,894,939. Similar increases were achieved in 2020 and reflect the involvement of Plan participants in monitoring and modifying their investments among the choices offered within the Plan (see Note 6).

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 \$1,252,543 or 47.8 percent of Plan distributions were paid to departing employees of the Plan. This reflects a decrease of \$864,853 of distributions from the Plan from 2020.

Economic Factors

Economic uncertainties have arisen which may negatively affect the financial position and results of operations of the Plan. During the year, the COVID-19 pandemic was substantially contained and the economy showed accelerated growth which caused inflation and strain on supply chains for goods and services. The regulatory and economic impact of these events continues to evolve. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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, 2021**

Assets

Investments

Investments, at fair value:

Mutual funds	\$ 48,748,811
Money market funds	4,878,751
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Total investments, at fair value	53,627,562
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Receivables

Notes receivable from participants	656,210
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Net Position Restricted for Pensions	\$ 54,283,772
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**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, 2021**

Additions:

Investment Income	
Net appreciation in fair value of investments	\$ 2,850,060
Dividends	3,992,755
	6,842,815
Net investment income	6,842,815
Interest Income on Notes Receivable from Participants	32,492
Contributions	
Employer	1,070,996
Participants	1,646,774
Rollovers	46,723
	2,764,493
Total contributions	2,764,493
Total additions	9,639,800
Deductions	
Benefits paid to participants	2,622,237
Administrative expenses	1,671
	2,623,908
Total deductions	2,623,908
Change in Net Position Restricted for Pensions	7,015,892
Net Position Restricted for Pensions, Beginning of Year	\$ 47,267,880
Net Position Restricted for Pensions, End of Year	\$ 54,283,772

**Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)**

Notes to Financial Statements

December 31, 2021

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, 2021, was 320 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 \$290,000 (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 1986 (IRC) limits.

**Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)**

Notes to Financial Statements

December 31, 2021

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:

<u>Length of Service</u>	<u>Vesting Percentage</u>
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.

**Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)**

Notes to Financial Statements

December 31, 2021

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, 2021, forfeited nonvested accounts totaled \$191,751 and forfeitures used to offset employer contributions totaled \$131,305.

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*.

**Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)**

Notes to Financial Statements

December 31, 2021

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 and capital 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 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*.

**Retirement Plan for Employees
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Notes to Financial Statements

December 31, 2021

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.

**Retirement Plan for Employees
of Houston-Galveston Area Council
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Notes to Financial Statements

December 31, 2021

	December 31, 2021
Money market funds:	
Fidelity Government Money Market Fund	\$ 4,878,751
Mutual funds:	
American Beacon Small Cap Value Fund	637,796
Cohen & Steers Institutional Reality Shares	338,979
Fidelity Balanced Fund	4,151,362
Fidelity Blue Chip Growth Fund	4,802,215
Fidelity Diversified International Fund	1,142,729
Fidelity Freedom 2010 Fund	8,071
Fidelity Freedom 2015 Fund	233,773
Fidelity Freedom 2020 Fund	1,979,420
Fidelity Freedom 2025 Fund	4,227,732
Fidelity Freedom 2030 Fund	2,926,503
Fidelity Freedom 2035 Fund	2,158,619
Fidelity Freedom 2040 Fund	3,195,439
Fidelity Freedom 2045 Fund	1,727,917
Fidelity Freedom 2050 Fund	1,150,881
Fidelity Freedom 2055 Fund	776,584
Fidelity Freedom 2060 Fund	92,390
Fidelity Freedom 2065 Fund	14,223
Fidelity Freedom Income Fund	29,681
Fidelity Growth Company Fund	4,727,158
Fidelity Mid Cap Stock Fund	1,196,816
Fidelity 500 Index Fund	5,915,619
Fidelity Extended Market Index Fund	698,993
Fidelity Global ex U.S. Index Fund	980,837
Fidelity U.S. Bond Index Fund	1,368,440
Fidelity Value Fund	671,073
Invesco Diversified Dividend Fund	374,971
Janus Henderson Triton Fund	82,546
PIMCO Total Return Fund	1,377,136
Allspring Small Company Growth R6	583,901
Galliard Retirement Income Fund Fee CL F35	1,177,007
Total mutual funds	48,748,811
Total investments	\$ 53,627,562

**Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)**

Notes to Financial Statements

December 31, 2021

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, 2021.

	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	\$ 4,878,751	\$ 4,878,751	\$ -	\$ -
Mutual funds	48,748,811	48,748,811	-	-
Total	\$ 53,627,562	\$ 53,627,562	\$ 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, 2021.

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, 2021	Weighted- average Maturity (Days)	Credit Rating
Money market funds	\$ 4,878,751	39	AAA

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Notes to Financial Statements

December 31, 2021

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 appreciation in fair value of investments, as they are paid through revenue sharing, rather than a direct payment. The Plan paid \$1,671 of administrative fees to Fidelity during the year ended December 31, 2021. The Sponsor provides certain administrative services at no cost to the Plan.

Note 8: Subsequent Events

As the country emerged from the COVID-19 pandemic in 2021, the financial impact of the gradual return to pre-pandemic conditions caused strain on services and supply chains both domestically and abroad. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. The Plan's retirement committee will monitor the performance of funds in the Plan at its regularly scheduled meetings throughout the year and recommend adjustments to the Plan, as needed, to assure sound fiscal stewardship for the participants in 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
(A Component Unit of Houston-Galveston Area Council)
Houston, Texas

We have audited, 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, the financial statements of Retirement Plan for Employees of Houston-Galveston Area Council (a component unit of Houston-Galveston Area Council) (the Plan), which comprise the Plan's statement of fiduciary net position as of December 31, 2021, 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 May 26, 2022.

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.

BKD, LLP

Houston, Texas
May 26, 2022



Houston-Galveston Area Council

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