

**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, 2019



**Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)
December 31, 2019**

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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 Financial Statements

We have audited the accompanying financial statements of the Retirement Plan for Employees of Houston-Galveston Area Council (A Component Unit of Houston-Galveston Area Council) (the Plan), which comprise the statement of fiduciary net position as of December 31, 2019, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

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 an opinion 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the 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, 2019, and the changes in its fiduciary net position 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 as listed in the table of contents 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated June 4, 2020, 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.

BKD, LLP

Houston, Texas
June 4, 2020

**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, 2019**

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, 2019.

Financial Highlights

The fiduciary net position of the Plan, at December 31, 2019 and 2018, was \$40,227,215 and \$33,607,654, 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 \$6,619,561 and decreased \$3,764,772 for the years ended December 31, 2019 and 2018, respectively.

The investment earnings on the Plan's assets increased \$6,778,308 and decreased \$1,415,818 for the years ended December 31, 2019 and 2018, respectively.

H-GAC and its employees are the only contributors to the Plan. Contributions totaled \$2,656,152 and \$2,347,673 for the years ended December 31, 2019 and 2018, respectively.

Benefit payments are the primary expense of the Plan. Such payments were \$2,855,503 and \$4,694,786 for the years ended December 31, 2019 and 2018, respectively. Other deductions of the Plan include administrative expenses, which totaled \$2,496 and \$1,841 for the years ended December 31, 2019 and 2018, 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

	2019	2018
Mutual funds and money market funds	\$ 39,432,733	\$ 32,895,257
Notes receivable from participants	794,482	776,482
Total assets	40,227,215	33,671,739
Employee forfeitures due to employer	-	64,085
Net position restricted for pensions	\$ 40,227,215	\$ 33,607,654

Statements of Changes in Fiduciary Net Position

	2019	2018
Net position restricted for pensions, beginning of year	\$ 33,607,654	\$ 37,372,426
Net (depreciation) appreciation in fair value of investments	5,189,774	(3,354,828)
Dividends	1,588,534	1,901,823
Interest income on notes receivables from participants	43,100	37,187
Contributions	2,656,152	2,347,673
Benefits paid to participants	(2,855,503)	(4,694,786)
Administrative expenses	(2,496)	(1,841)
Net position restricted for pensions, end of year	\$ 40,227,215	\$ 33,607,654

Economic Factors

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position and results of operations of the Plan. 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 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, 2019**

Assets

Investments

Investments, at fair value:

Mutual funds	\$ 34,198,439
Money market funds	<u>5,234,294</u>

Total investments, at fair value	39,432,733
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Receivables

Notes receivable from participants	<u>794,482</u>
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Net Position Restricted for Pensions	<u><u>\$ 40,227,215</u></u>
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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, 2019**

Additions:

Investment Income

Net appreciation in fair value of investments	\$ 5,189,774
Dividends	<u>1,588,534</u>
Net investment income	<u>6,778,308</u>

Interest Income on Notes Receivable from Participants	<u>43,100</u>
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Contributions

Employer	1,231,801
Participants	1,319,232
Rollovers	<u>105,119</u>

Total contributions	<u>2,656,152</u>
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Total additions	<u>9,477,560</u>
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Deductions

Benefits paid to participants	2,855,503
Administrative expenses	<u>2,496</u>

Total deductions	<u>2,857,999</u>
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Change in Net Position Restricted for Pensions	6,619,561
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Net Position Restricted for Pensions, Beginning of Year	<u>33,607,654</u>
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Net Position Restricted for Pensions, End of Year	<u><u>\$ 40,227,215</u></u>
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**Retirement Plan for Employees
of Houston-Galveston Area Council
(A Component Unit of Houston-Galveston Area Council)**

Notes to Financial Statements

December 31, 2019

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 fund 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 January 1, 2014. The Plan is a defined contribution plan sponsored by Houston-Galveston Area Council (the Sponsor) for the benefit of its 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, 2019 was 295 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 \$280,000 (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. The total of the voluntary and elective contributions may not exceed eighteen percent of considered compensation. 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
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Notes to Financial Statements

December 31, 2019

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.

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

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

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Notes to Financial Statements

December 31, 2019

- 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 his 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 his 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. No forfeitures were used to reduce required employer contributions during 2019. At December 31, 2019, forfeited nonvested accounts totaled \$126,511.

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 daily.

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 and capital

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Notes to Financial Statements

December 31, 2019

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. 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. Interest income is recorded on the accrual basis. 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.

**Retirement Plan for Employees
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Notes to Financial Statements

December 31, 2019

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 Internal Revenue Code (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, 2019
Money market funds:	
Fidelity Retirement Money Market Portfolio	\$ 5,234,294
Mutual funds:	
American Beacon Small Cap Value Fund	472,524
Fidelity Balance Fund	2,183,414
Fidelity Blue Chip Growth Fund	3,337,913
Fidelity Diversified International Fund	913,623
Fidelity Freedom 2010 Fund	7,375
Fidelity Freedom 2020 Fund	1,879,774

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Notes to Financial Statements

December 31, 2019

	December 31, 2019
Mutual funds (continued):	
Fidelity Freedom 2025 Fund	\$ 2,671,427
Fidelity Freedom 2030 Fund	1,954,650
Fidelity Freedom 2035 Fund	1,530,892
Fidelity Freedom 2040 Fund	2,070,337
Fidelity Freedom 2045 Fund	908,233
Fidelity Freedom 2050 Fund	527,243
Fidelity Freedom 2055 Fund	372,439
Fidelity Freedom 2060 Fund	26,174
Fidelity Freedom Income Fund	70,333
Fidelity Growth Company Fund	3,377,066
Fidelity Mid Cap Stock Fund	1,176,842
Fidelity Spartan 500 Index Fund	4,760,243
Fidelity Spartan Extended Market Index Fund	498,888
Fidelity Spartan Global ex U.S. Index Fund	781,462
Fidelity Spartan U.S. Bond Index Fund	2,663,259
Fidelity Value Fund	302,121
Invesco Diversified Dividend Fund	447,036
PIMCO Total Return Fund	857,310
WF Small Cap Value Fund R6	407,861
	34,198,439
	\$ 39,432,733

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, 2019:

	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	\$ 5,234,294	\$ 5,234,294	\$ -	\$ -
Mutual Funds	34,198,439	34,198,439	-	-
Total	\$ 39,432,733	\$ 39,432,733	\$ 0	\$ 0

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

Notes to Financial Statements

December 31, 2019

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, 2019.

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, 2019	Weighted- average Maturity (Days)	Credit Rating
Money Market Funds	\$ 5,234,294	32	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 appreciation in fair value of investments, as they are paid through revenue sharing, rather than a direct payment. The Plan paid \$2,496 of administrative fees to Fidelity during the year ended December 31, 2019. The Sponsor provides certain administrative services at no cost to the Plan.

**Retirement Plan for Employees
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Notes to Financial Statements

December 31, 2019

Note 8: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position and results of operations of the Plan. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments, which has resulted in a substantial decline in the fair value of investments in the statement of fiduciary net position.

**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 the Retirement Plan for Employees of Houston-Galveston Area Council (A Component Unit of Houston-Galveston Area Council) (the Plan), which comprise the statement of fiduciary net position as of December 31, 2019, and the related statements 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 June 4, 2020.

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) to determine the 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 may exist that have not been identified.

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 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 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
June 4, 2020