

Houston-Galveston Area Council
Houston, Texas



**Comprehensive Annual
Financial Report**

For the year ended
December 31, 2013

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

For the year ended
December 31, 2013

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**HOUSTON-GALVESTON AREA COUNCIL
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended December 31, 2013**

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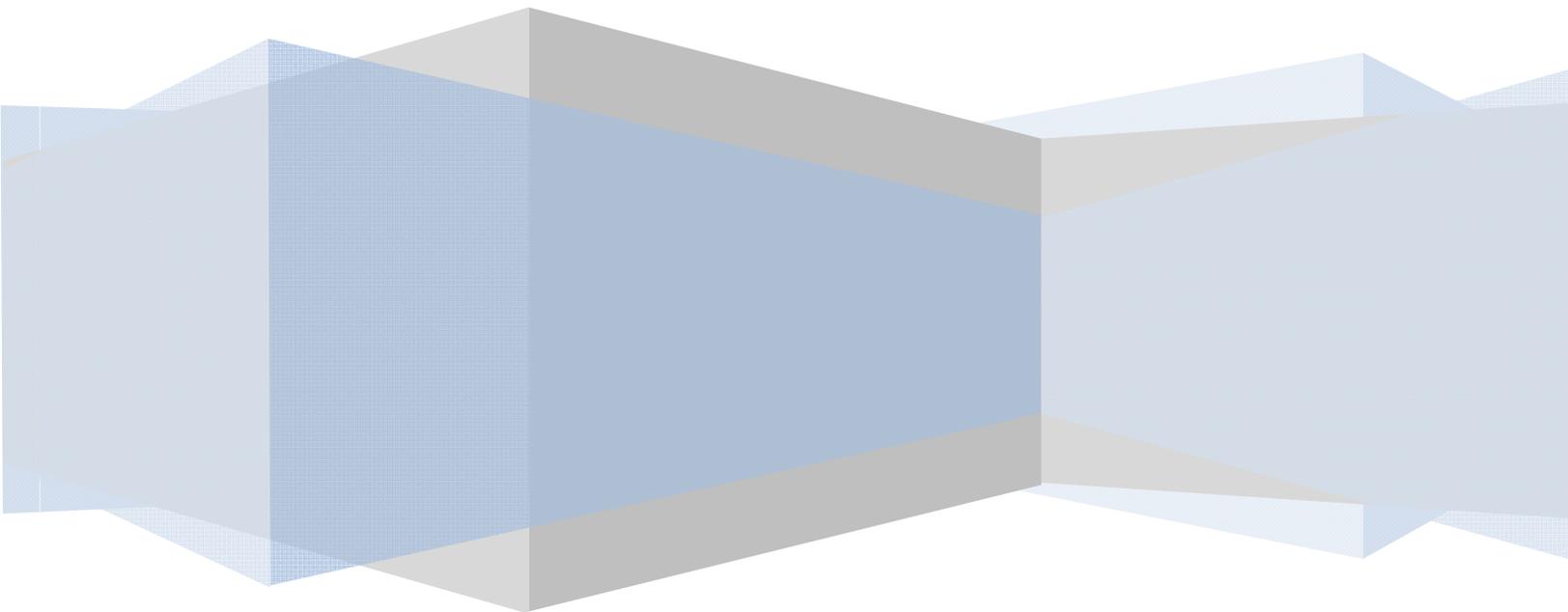
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Introductory Section





Houston-Galveston Area Council

June 9, 2014

The Honorable Darrell Morrison and Members
of the Board of Directors
Houston-Galveston Area Council
Houston, TX

Dear Councilman Morrison and Members of the Board of Directors:

The Comprehensive Annual Financial Report (CAFR) of the Houston-Galveston Area Council, (the “Council” or “H-GAC”) for the fiscal year ended December 31, 2013 is hereby submitted. This report was prepared by the Department of Finance, which accepts responsibility for the accuracy, completeness, and fairness of the data presented. We believe the data, as presented, is accurate in all material respects, that it properly reflects the financial position and the results of operation of the Council, and that all disclosures have been made to enable the reader to acquire the maximum understanding of financial affairs concerning the Council. These financial statements are presented annually in compliance with the Office of Management and Budget’s Circular A-133, the Single Audit Act of 1984, as amended and Article X, Section 2, of the Council’s Bylaws.

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

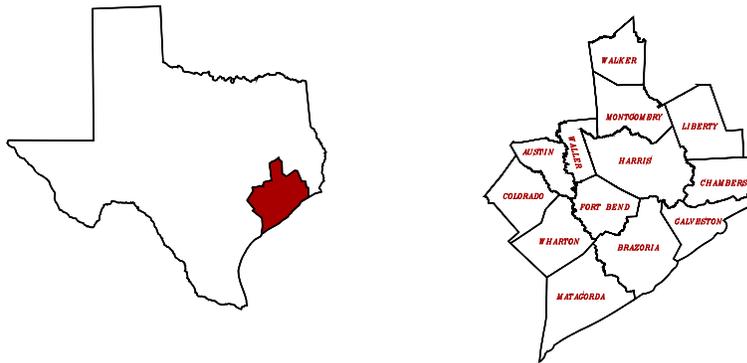
The Council has prepared Management’s discussion and analysis (MD&A) which immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. This MD&A is intended to complement this letter of transmittal and should be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

Profile of the Houston-Galveston Area Council

On September 9, 1966, a regional planning commission known as the Houston-Galveston Area Council was created under authority of State Law now recodified as Local Government Code, Chapter 391. The Council is a voluntary membership organization of local governments in a thirteen county region of Southeast Texas. The organization is one of 24 regional councils in Texas. Local governments created H-GAC to develop a systematic method of evaluating and addressing common concerns that affect several governmental jurisdictions. Cooperative efforts to resolve regional issues such as employment, water and air pollution, crime, traffic and mobility, drainage and flooding, care of the elderly, and waste disposal have received collective action through H-GAC. The Council continues to be dedicated to improving the quality of life of the citizens of the

region through cooperative efforts to enhance the physical, social, and economic environment.

H-GAC is governed by a General Assembly of 132 delegates from member local governments. A Board of Directors composed of 35 locally elected officials, members representing county governments, cities, school districts and soil and water conservation districts provides more specific guidance and policy-making through its regular monthly meetings. During 2012, H-GAC's membership was comprised of the 13 county governments, 105 cities, and 14 school districts, including all major general-purpose local governments in the region. According to 2010 estimates from the U.S. Bureau of Census, these member governments represented approximately 6.1 million citizens and covered an area of 12,500 square miles. Below is a graphic representation of the H-GAC region and its location in the state of Texas.



Economic Condition and Outlook

The lone star state leads the nation in job growth. According to the State of Texas Comptroller, the unemployment rate in Texas has been less than the national average for 88 consecutive months. During 2013 and for the first quarter of 2014, every major economic sector experienced growth including housing, utilities, transportation, and manufacturing. Additionally, Texans are more optimistic about the economy than citizens outside the state. Consumer confidence in the region is 90.2% and has increased 20% in the past year. Nationwide consumer confidence is just 62%

Texas is a wide and diverse state with over 268,000 square miles. With the significant opportunities available in Texas, there has been a dramatic increase in population in the state. While all of this growth is praise-worthy, the challenges of rapid growth will require careful planning and strategic management to assure that the quality of life is preserved. According to the Texas AgriLife Extension Service, water demand in Texas is projected to increase 22% between 2010 and 2060. Protecting and conserving the water supply for the state is vital to its economic life. Since 2011, the state has regions that have experienced significant losses due to draught conditions. Some regions of the state have received less than 5" of rainfall in the last two years. According to the State Comptroller, planning for and managing our water use is perhaps the most important issue facing Texas policy makers in the 21st century. Many of the state's industries are largely dependent on the abundant supply of affordable water. For example the introduction of oil extraction using fracking requires substantial supplies of water. Agricultural needs such as cotton also depend on the availability of water to be sustainable. Failure to protect just these two industries with needed resources and conservation could impact the oil and textile industries world-wide. H-GAC works with the Texas Commission on Environmental Quality to monitor water sources in the region and report on both the quality and quantity of water in the area. These studies help the state formulate

plans for conservation and preservation of this precious resource.

Additionally, the population boom strains the state's goods movement and mobility infrastructure. More than 1 million new residents will relocate to the H-GAC region in the next decade and 3.5 million new residents are expected by 2035. The regional transportation improvement plan includes over 900 transportation related projects totaling more than \$9.8 billion which will maintain, enhance, and expand the regional transportation system.

Texas has many challenges but each challenge brings a new opportunity for the state and the region. Texans have a long history of meeting challenges with innovative solutions and the outlook for the state is and it's economy is shining brightly.

Major Initiatives

Air Quality

Environmental concerns are a key focus for the Houston-Galveston region. The state of Texas has designated eight counties in the H-GAC region as deficient in meeting the federal guidelines for air quality. As a result, H-GAC is working with the Texas Commission on Environmental Quality to develop and implement a plan to address emissions that are polluting the air. H-GAC has loaned over \$9 million to drayage truck drivers to repair or replace their heavy emission vehicles with improved technology and cleaner burning engines. Additionally, H-GAC has made significant strides in encouraging carpooling and vanpooling to reduce the number of vehicles on the road during rush hours. These steps and many more are helping to improve the air quality in the region.

Workforce Development

The Gulf Coast Workforce Board's mission is to help employers meet their workforce needs and individuals build careers so both can compete in the global economy. H-GAC is the administrative entity for the Gulf Coast Workforce Board. In that function, H-GAC provides leadership and direction to a network of employment service providers to help the unemployed and underemployed in the region. In 2012, H-GAC provided service for more than 325,000 people in the region to get a job, keep a job, or get a better job.

The four goals identified by the Workforce Board include: 1)More competitive employers. 2)A better educated workforce. 3)More and better jobs and 4)Higher incomes.

Additionally, the Workforce Board has identified key industries that could make positive contributions to meeting the region's goals. They include aerospace, energy, health services and education.

Public Services

The H-GAC region covers more than 12,500 square miles, houses more than 6 million people, hosts two major airports, contains critical industries for national security, and provides leading-edge technology in a multiplicity of industries. The region also contains the fourth largest city in the United States, Houston, and the seventh largest container port in the U.S., the Port of Houston.

In response to this, public officials are critically aware of the security risks that such a dynamic

region represents. Local governments in the region utilize the services of H-GAC to obtain grant funds and provide a forum for an integrated security plan.

Additionally, H-GAC has been providing government-to-government procurement services for over thirty-five years to local governments and non-profits from coast to coast. This program allows members an opportunity to buy from a diverse list of goods and services and remain compliant with rigorous government procurement requirements.

Community and Environmental Planning

H-GAC is primarily a planning organization. This is evident in the increasing commitment to provide services in the region ranging from water quality to economic development. H-GAC completed a multi-year study of the region in response to the projected growth of the communities and the challenges that growth represents. The study was funded by the federal Housing and Urban Development Administration. Goals of the study include identifying people, places, and a prosperity framework that includes housing, transportation, education, and economic development components. The result is a stakeholder driven regional vision that improves the workforce and job growth of the region and promotes federal funds to support the identified initiatives in the study.

Financial Planning and Policies

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

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in “Financial Reporting to the Houston-Galveston Area Council for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2012. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

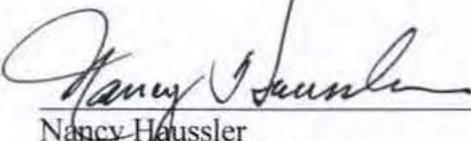
This report could not have been accomplished without the dedication and efficiency of the Council’s Financial, Administrative, and Program management staff. Special acknowledgement should also be given to the Council’s auditors, WhitleyPenn whose expertise lent greatly this

report's completion. Finally, we would like to thank the members of the Board of Directors for their interest and support in planning and conducting the financial operations of the Council in a responsible and progressive manner.

Respectfully submitted,



Jack Steele
Executive Director



Nancy Haussler
Chief Financial Officer



Government Finance Officers Association

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

Presented to

**Houston-Galveston Area Council
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2012

Executive Director/CEO

**HOUSTON-GALVESTON AREA COUNCIL
PRINCIPAL OFFICIALS**

**OFFICERS OF THE BOARD OF DIRECTORS
2013**

Ed Emmett
Chair-County Judge
Harris County

Darrell Morrison
Chair Elect-Councilman
City of Pasadena

Nate McDonald
Vice Chair-County Judge
Matagorda County

ADMINISTRATIVE STAFF

Executive Director
Chief Operating Officer
Chief Financial Officer
Manager of Internal Audit
Manager of Intergovernmental Relations

Jack Steele
Chuck Wemple
Nancy Haussler
Charles Hill
Rick Guerrero

H-GAC MEMBER GOVERNMENTS

Counties

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

Cities over 25,000 Population

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

Home Rule Cities

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

General Law Cities

Anahuac	Eagle Lake	Kendleton
Arcola	East Bernard	Magnolia
Bayou Vista	El Lago	Meadows Place
Beach City	Fulshear	Mont Belvieu
Bellville	Hedwig Village	Morgan's Point
Brazoria	Hempstead	Needville
Brookshire	Hillcrest Village	New Waverly
Brookside Village	Holiday Lakes	Oak Ridge North
Bunker Hill Village	Hunters Creek Village	Old River Winfree
Clear Lake Shores	Iowa Colony	Oyster Creek

Columbus
Daisetta
Danbury
Piney Point Village
Prairie View
Richmond
Richwood
Riverside
San Felipe
Shenandoah
Shoreacres

Jamaica Beach
Jones Creek
Kemah
South Houston
Southside Place
Splendor
Spring Valley
Stagecoach
Surfside Beach
Taylor Lake Village
Thompsons

Panorama Village
Pattison
Tiki Island
Waller
Wallis
Weimar
West Columbus
Weston Lakes

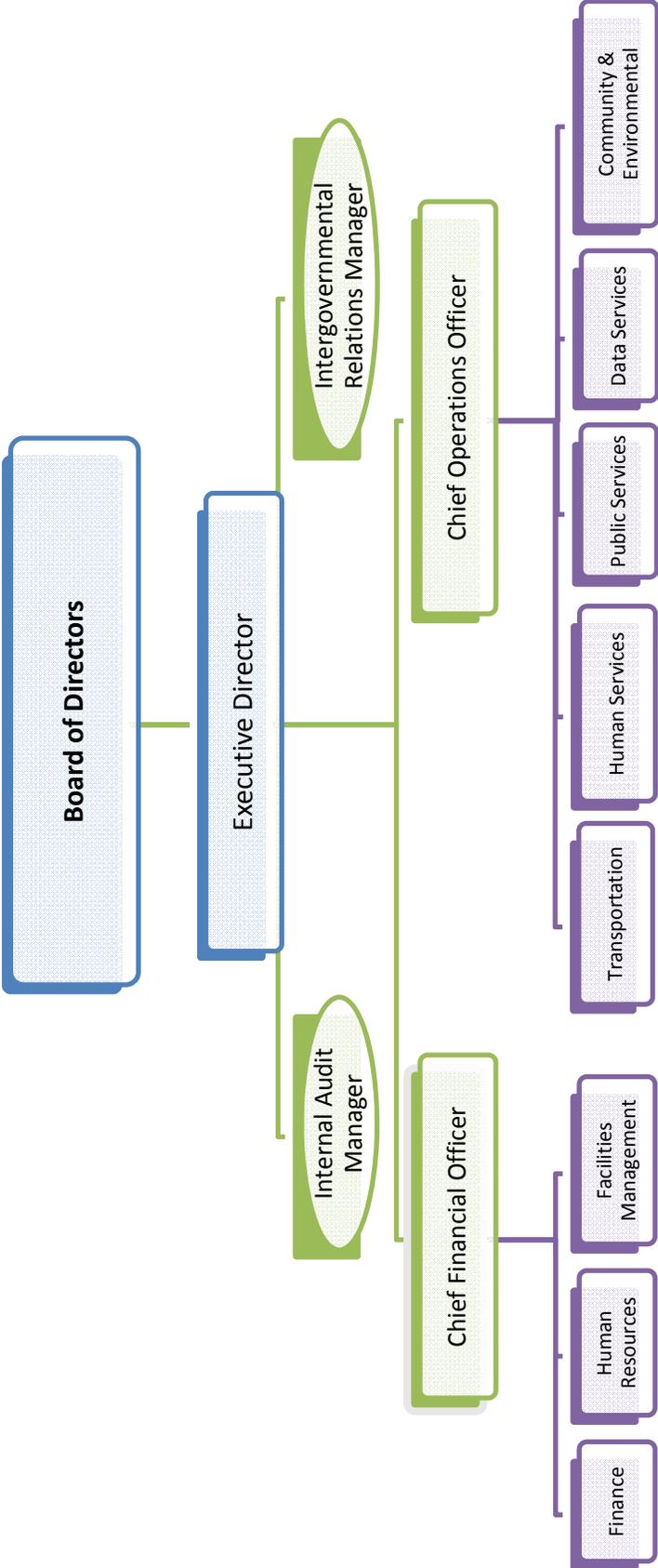
Independent School Districts

Alief ISD
Columbia-Brazoria ISD
Deer Park ISD
Fort Bend ISD

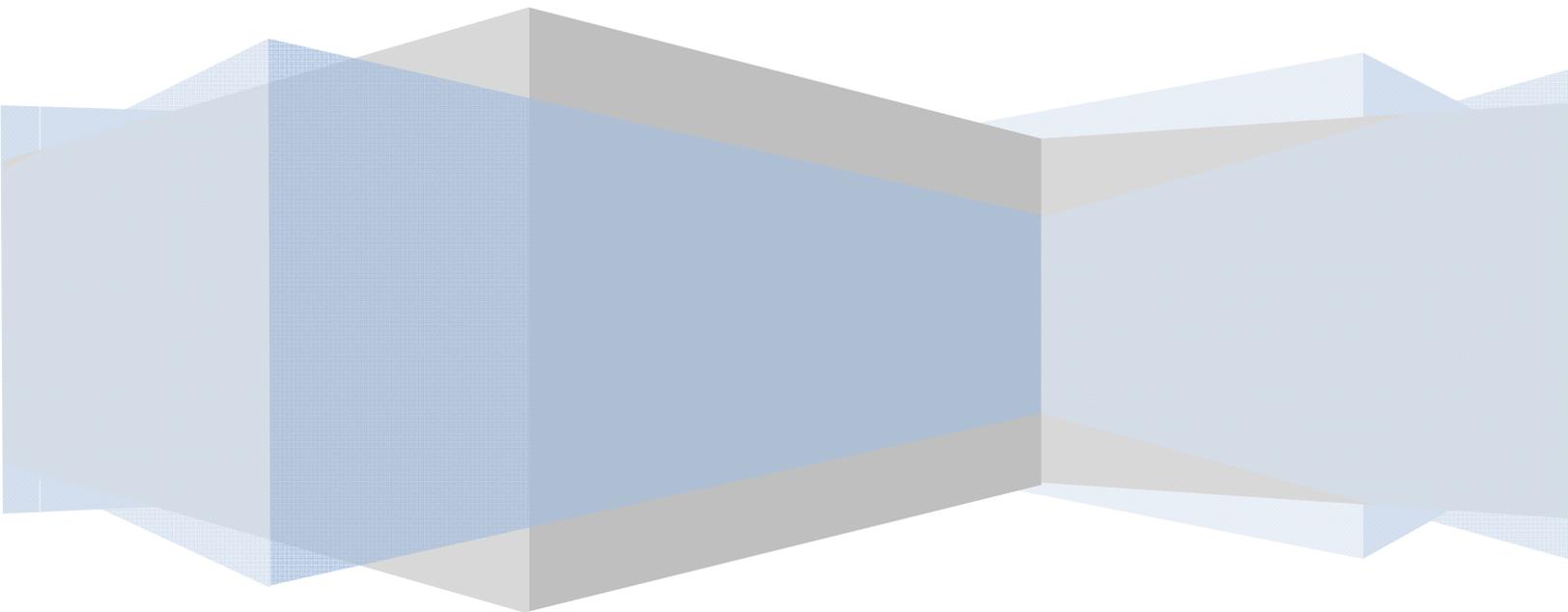
Hempstead ISD
Hitchcock ISD
Huntsville ISD
Magnolia ISD

Needville ISD
Pearland ISD

Houston-Galveston Area Council



Financial Section



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Houston-Galveston Area Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Houston-Galveston Area Council (the "Council"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Directors
Houston-Galveston Area Council

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Council, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 17 to 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The introductory and statistical sections, the Supplemental Information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations and the State of Texas Uniform Grant Management Standards and is also not a required part of the basic financial statements.

The Supplemental Information and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information and the Schedules of Expenditures of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Board of Directors
Houston-Galveston Area Council

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2014 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Council's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
June 9, 2014

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Management's Discussion and Analysis

The following is a narrative overview and analysis of the financial activities of the Houston-Galveston Area Council ("H-GAC") for the fiscal year ended December 31, 2013. This analysis is prepared by the Finance department of the H-GAC and is intended to expand the reader's understanding of the attached financial statements and the effect of certain events on those financial statements.

Financial Highlights

- The assets of H-GAC exceed its liabilities by \$24,574,703 all of which is available to meet the Council's ongoing obligations to local governments and creditors.
- H-GAC's net position increased by \$3,384,432 during the fiscal year ended December 31, 2013.
- At the end of the fiscal year, the unrestricted fund balance for the general fund was \$8,062,639.

Overview of the Financial Statements

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

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

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

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

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

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

Comparison between the governmental activities in the government-wide financial statements and the information presented in the governmental funds statements allows the reader to better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

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

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

Proprietary Funds. H-GAC had only one type of proprietary fund during fiscal year 2013. The Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Unlike governmental funds, enterprise funds are maintained on the full accrual basis of accounting as are the government-wide financial statements, therefore, no reconciliation between the statements is necessary. H-GAC records the activities of its Cooperative Purchasing program in the enterprise fund.

Fiduciary Funds. The pension trust fund for H-GAC is accounted for in the fiduciary fund. This fund, like the proprietary funds, is presented on the full accrual basis of accounting. Fiduciary funds are not presented in the government-wide financial statements as these funds are restricted and are not available to support the programs of H-GAC. The pension plan is audited separately and a copy of this report is available by requesting the same from H-GAC, P.O. Box 22777, Houston, TX 77227-2777.

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

Government-Wide Financial Analysis

Statement of Net Position

H-GAC's assets exceed liabilities by \$24,574,703 at the close of the most recent fiscal year, 2013. Approximately 3.9% of the Council's net position is capital investments. These capital investments are within the office facilities of H-GAC to provide service and do not represent funds available for future spending. There was restricted net position of \$7,749,761 at the end of the fiscal year. The balance of unrestricted net position in 2013 of \$15,873,251 may be used to meet H-GAC's ongoing obligations.

HOUSTON-GALVESTON AREA COUNCIL CONDENSED STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2013	2013	2013
Assets						
Current and other assets	\$ 43,551,858	\$ 39,203,504	\$ 8,565,850	\$ 7,570,789	\$ 52,117,708	\$ 46,774,293
Capital assets, net	890,139	1,199,307	78,538	117,377	968,677	1,316,684
Total Assets	<u>44,441,997</u>	<u>40,402,811</u>	<u>8,644,388</u>	<u>7,688,166</u>	<u>53,086,385</u>	<u>48,090,977</u>
Liabilities						
Current and other liabilities	28,387,036	26,760,018	124,646	140,688	28,511,682	26,900,706
Long-term liabilities					-	-
Total Liabilities	<u>28,387,036</u>	<u>26,760,018</u>	<u>124,646</u>	<u>140,688</u>	<u>28,511,682</u>	<u>26,900,706</u>
Net Position						
Net Investment in capital assets	873,153	1,171,554	78,538	117,377	951,691	1,288,931
Restricted for:						
EPA RFL Program	7,749,761	201,005				
Unrestricted	<u>7,432,047</u>	<u>12,270,234</u>	<u>8,441,204</u>	<u>7,430,101</u>	<u>15,873,251</u>	<u>19,700,335</u>
Total net position	<u>\$ 16,054,961</u>	<u>\$ 13,642,793</u>	<u>\$ 8,519,742</u>	<u>\$ 7,547,478</u>	<u>\$ 24,574,703</u>	<u>\$ 21,190,271</u>

Statement of Activities

H-GAC's net position was increased by \$3,384,432 for the year. This reflects an increase in net position for governmental activities of \$2,412,168 and an increase in net position in business-type activities of \$972,264. The increase in net position in governmental activities represents a 11.4% increase of net position for governmental activities and the change in net position in the business-type activities represents a 4.6% increase in net position for this activity. Overall, H-GAC increased net position by 16%. Key elements of the increase along with percentage analysis are as follows:

**HOUSTON-GALVESTON AREA COUNCIL
CHANGE IN NET POSITION**

	Governmental Activities		Business-type Activities		Total		Percent	
	2013	2012	2013	2012	2013	2012	2013	2012
Program revenues								
Charges for services	\$ 1,087,428	\$ 3,322,592	\$ 3,951,174	\$ 4,304,114	\$ 5,038,602	\$ 7,626,706	2.02%	3.22%
Operating grants and contributions	243,745,694	228,699,778			243,745,694	228,699,778	97.83%	96.48%
General revenues:							0.00%	
State financial assistance	-	-			-	-	0.00%	0.00%
Interest income	158,039	14,668			158,039	14,668	0.06%	0.01%
Other income	217,856	696,854			217,856	696,854	0.09%	0.29%
Total revenues	245,209,017	232,733,892	3,951,174	4,304,114	249,160,191	237,038,006	100.00%	100%
Expenses								
General government	934,780	3,542,368			934,780	3,542,368	0.38%	1.51%
Workforce programs	185,089,084	180,735,826			185,089,084	180,735,826	75.31%	77.02%
Transportation	33,229,456	25,840,134			33,229,456	25,840,134	13.52%	11.01%
Community and environmental	10,310,254	8,016,851			10,310,254	8,016,851	4.19%	3.42%
Criminal justice	1,027,540	848,023			1,027,540	848,023	0.42%	0.36%
Emergency communications	3,242,332	3,898,273			3,242,332	3,898,273	1.32%	1.66%
Aging services	8,774,680	9,144,786			8,774,680	9,144,786	3.57%	3.90%
Regional excellence corporation	188,721	152,720			188,721	152,720	0.08%	0.07%
Cooperative purchasing			2,978,910	2,477,374	2,978,910	2,477,374	1.21%	1.06%
Total expenses	242,796,847	232,178,981	2,978,910	2,477,374	245,775,757	234,656,355	100.00%	100.00%
Change in net position	2,412,170	2,554,911	972,264	1,826,740	3,384,434	4,381,651		
Net position - beginning of year	13,642,793	11,087,883	7,547,478	5,720,738	21,190,271	16,808,621		
Net position - end of year	\$ 16,054,961	\$ 13,642,793	\$ 8,519,742	\$ 7,547,478	\$ 24,574,703	\$ 21,190,271		

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

Business-type activities

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

The program is influenced by market conditions. The Cooperative Purchasing program deals primarily in the acquisition of capital assets. In 2012 and 2013, revenue in this program was \$4,304,114 and \$3,951,174 respectively. During the year, operating expenses for the program increased 20.2% and revenues decreased 8.2%. The combined result was reflected in an increase to net assets of \$972,264 or 12.9%. By comparison, the increase in 2012 was \$1,826,740 or 31.9%.

Business-Type Expenses	2013 Amount	2012 Amount	Increase (Decrease) from 2012	Percentage Increase (Decrease)
Personnel and benefits	\$ 2,139,429	\$1,969,012	\$ 170,417	8.7%
Consultant and contract services	233,433	72,180	161,253	223.4%
Equipment rental and leases	95	950	(855)	(90%)
Lease of office space	136,293	155,000	(18,707)	(12.1%)
Travel	38,125	20,278	17,847	88%
Depreciation	38,839	38,839	0	0%
Other	<u>392,696</u>	<u>221,115</u>	<u>171,581</u>	<u>77.6%</u>
Total expenses	<u>\$2,978,910</u>	<u>\$2,477,374</u>	<u>\$ 501,536</u>	<u>20.2%</u>

Financial Analysis of the Government's Funds

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

Governmental Funds

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

H-GAC's fund balance for fiscal year 2013 is \$8,242,054. A reserve of \$179,415 has been established for prepaid items. The balance of \$8,062,639 is available for use at H-GAC's discretion.

The general fund of H-GAC was increased by \$278,051. The general fund is the primary operating fund for H-GAC. The grant fund, used to account for all grant programs and other revenues whose use is restricted for a specific purpose had no fund balance at the end of the year.

Also included in the governmental funds is the Regional Excellence Corporation, a blended component unit of the H-GAC established in 2004 to support programs and initiatives of the organization through private sector contributions. All board members of the Corporation serve in a dual capacity as both a board member of H-GAC and a board member of the corporation. In 2013 the corporation had cash and pledged contributions of \$69,612 and expenditures of \$188,721. The corporation's bylaws restrict the use of these funds.

Proprietary Funds

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

Capital Asset Administration

H-GAC's investment in capital assets for both governmental and business-type activities amount to \$1,393,503 and \$968,677 (net of depreciation) for the fiscal years ended December 31, 2012 and 2013 respectively. This investment in capital assets includes equipment, furniture, and fixtures. Additional information on H-GAC's capital assets and capital leases can be found in footnote 6 and 8, respectively, of this report. H-GAC does not own any real property.

During 2013, H-GAC acquired a variety of assets. The Council has a capitalization threshold of \$5,000, in accordance with federal requirements. The following table identifies the additions and retirements of depreciable assets for both the governmental and business-type activities. Beginning balances are net of depreciation. The accumulated depreciation column below reflects the net affect of depreciation expense for the year and the recovery of depreciation upon retirement of assets.

HOUSTON-GALVESTON AREA COUNCIL CAPITAL ASSET ANALYSIS

	Beginning Balance	Additions	Retirements	Accumulated Depreciation	Ending Balance
Governmental Activities					
Equipment, furniture and fixtures	\$1,199,307	\$24,341	\$0	\$(477,376)	\$890,139
Business-type Activities					
Equipment, furniture and fixtures	\$194,196	\$0	\$0	\$(115,658)	\$78,538
Total	\$1,393,503	\$24,341	\$0	\$(593,034)	\$968,677

Debt Administration

Debt considered a liability of governmental activities consists of capital lease obligations and compensated absences. Debt balances related to capital leases in 2013 were \$16,986. Compensated absences decreased by \$12,343 in 2013, finishing the year with an ending balance of \$891,906. Further information on the Council's debt can be found in note 2 to the financial statements.

Economic Factors and Next Year's Budget

- H-GAC membership dues are based on the federal 10-year census and are calculated on population. For FY2014 the per-capita membership revenue is estimated at \$337,000. This is consistent with the budget for 2013.
- H-GAC decreased estimated revenues and corresponding expenses by \$9,691,834 for 2014. The budget reflects decreases in Workforce and Transportation programs of \$7,764,594, \$5,277,403 respectively. Workforce program anticipates a reduction in WIA funds. The decreases in Transportation programs are due to the 1st round completion of Bridge Loan programs funding from U.S. Environmental Protection Agency. The Community & Environmental program and Data Services program are projecting increased funding in 2014. The Community & Environmental program reflects an increase of \$1,804,975 because of the implementation of round 2 of Subregional Disaster Recovery Housing Program. The Data

Service program projects an increase of \$781,324.because of the imagery project that will take place in 2014.

All of these factors were considered in preparing the budget for the 2014 fiscal year.

Requests for Information

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

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**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Primary Government			Component Units			
	Governmental Activities	Business-type Activities	Total	Energy Purchasing Corporation	Economic Develop Corporation	Local Development Corporation	Total
ASSETS							
Cash and cash equivalents	\$ 21,624,605	\$ 21,624,605	\$ 21,624,605	\$ 32,857	1,458,877	\$ 2,652,682	\$ 4,144,416
Investments	4,062,807		4,062,807			304,782	304,782
Receivables, net	16,392,616	\$ 2,261,727	18,654,343	263	240,506	58,898	299,667
Notes Receivable	6,546,700		6,546,700		1,099,694		1,099,694
Due from Component Units	1,049,838		1,049,838				
Internal balances	(6,304,123)	6,304,123	-				
Prepaid expenses	179,415		179,415				
Capital assets, net	890,139	78,538	968,677				
Total Assets	<u>44,441,997</u>	<u>8,644,388</u>	<u>53,086,385</u>	<u>33,120</u>	<u>2,799,077</u>	<u>3,016,362</u>	<u>5,848,559</u>
LIABILITIES							
Accounts payable and accrued expenses	1,183,152	90,219	1,273,371				
Unearned revenues	9,325,500	34,427	9,359,927				
Due to grantee agencies	16,969,492		16,969,492	60,718	903,856	85,264	1,049,838
Due to primary government							
Long Term Liabilities							
Due within one year	753,974		753,974				
Due more than one year	137,932		137,932				
Obligation of capital leases:							
Due within one year	10,767		10,767				
Due more than one year	6,219		6,219				
Total Liabilities	<u>28,387,036</u>	<u>124,646</u>	<u>28,511,682</u>	<u>60,718</u>	<u>903,856</u>	<u>85,264</u>	<u>1,049,838</u>
NET POSITION							
Net investment in capital assets	873,153	78,538	951,691				
Restricted for:							
EPA RLF Program	7,749,761		7,749,761		1,895,221	2,931,098	1,895,221
Regional Excellence Corporation	81,896		81,896				2,931,098
EDA RLF Program							(27,598)
Local Development Corporation							
Unrestricted	7,350,151	8,441,204	15,791,355				
Total Net Position	<u>\$ 16,054,961</u>	<u>\$ 8,519,742</u>	<u>\$ 24,574,703</u>	<u>\$ (27,599)</u>	<u>\$ 1,895,221</u>	<u>\$ 2,931,098</u>	<u>\$ 4,798,721</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Functions/Programs Primary government:	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit		
	Expenses	Indirect Expense Allocation	Charges for Services	Operating Grants and Contributions	Primary Government		Energy Purchasing Corporation	Gulf Coast Economic Develop Corporation	Local Development Corporation
					Governmental Activities	Business-type Activities			
Governmental activities:									
General government	\$ 3,186,761	\$ (2,251,981)	\$ 1,087,428	\$ 152,647	\$ 152,647				
Workforce programs	184,644,021	445,063		45,800	45,800				
Transportation	32,373,976	855,480		2,410,549	2,410,549				
Community and environmental	9,945,907	364,347		(220,459)	(220,459)				
Criminal justice	958,249	69,291		(58,714)	(58,714)				
Emergency communications	3,147,433	94,899		-	-				
Aging services	8,616,344	158,336		(174,440)	(174,440)				
Regional Excellence Corporation	188,721			(119,110)	(119,110)				
Total governmental activities	<u>243,061,412</u>	<u>(264,565)</u>	<u>1,087,428</u>	<u>2,036,273</u>	<u>2,036,273</u>				
Business-type activities:									
Cooperative purchasing	2,714,345	264,565	3,951,174		972,264	972,264			
Total business-type activities	<u>2,714,345</u>	<u>264,565</u>	<u>3,951,174</u>		<u>972,264</u>	<u>972,264</u>			
Total primary government	<u>\$ 245,775,757</u>	<u>\$ -</u>	<u>\$ 5,038,602</u>	<u>\$ 2,036,273</u>	<u>\$ 2,036,273</u>				
Component units:									
Energy purchasing corporation	136,146		195,181				\$ 59,035	\$ 50,392	\$ 255,673
Gulf Coast Economic Development Corporation	100,311								\$ 255,673
Local Development Corporation	809,182		1,064,856						
Total component units	<u>\$ 1,045,639</u>		<u>\$ 1,260,037</u>				<u>\$ 59,035</u>	<u>\$ 50,392</u>	<u>\$ 255,673</u>
General revenues:									
Interest income				158,039	158,039				
Miscellaneous income				217,856	217,856				
Total general revenues				<u>375,895</u>	<u>375,895</u>				
Transfers									
Change in net position				2,412,168	2,412,168	972,264	59,035	50,392	255,673
Net position - beginning				13,642,793	13,642,793	7,547,478	(86,633)	1,844,830	2,675,426
Net position - ending				<u>\$ 16,054,961</u>	<u>\$ 16,054,961</u>	<u>\$ 8,519,742</u>	<u>\$ (27,598)</u>	<u>\$ 1,895,222</u>	<u>\$ 2,931,099</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

ASSETS	General	Grant Fund	Regional Excellence Corporation	Total Governmental Funds
Cash and cash equivalents	\$ 18,560,785	\$ 2,968,376	\$ 95,444	\$ 21,624,605
Investments	4,062,807			4,062,807
Receivables	296,915	16,095,701		16,392,616
Due from other funds	455,020	9,455,781		9,910,801
Due from component unit	1,049,838			1,049,838
Notes Receivable		6,546,700		6,546,700
Prepaid items	179,415			179,415
Total assets	<u>\$ 24,604,780</u>	<u>\$ 35,066,558</u>	<u>\$ 95,444</u>	<u>\$ 59,766,782</u>
 LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	381,627	787,977	13,548	1,183,152
Unearned revenue	221,192	9,104,308		9,325,500
Due to grantee agencies		16,969,492		16,969,492
Due to other funds	15,759,904	455,020		16,214,924
Total liabilities	<u>16,362,723</u>	<u>27,316,797</u>	<u>13,548</u>	<u>43,693,068</u>
 Fund balance-				
Unassigned	8,062,639			8,062,639
Nonspendable	179,415			179,415
Restricted for:				
EPA RFL Program		7,749,761		7,749,761
Regional Excellence Corporation			81,896	81,896
Total fund balance	<u>8,242,054</u>	<u>7,749,761</u>	<u>81,896</u>	<u>16,073,711</u>
Total liabilities and fund balance	<u>\$ 24,604,780</u>	<u>\$ 35,066,558</u>	<u>\$ 95,444</u>	<u>59,766,782</u>

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	890,139
Compensated absences of governmental activities are not due and payable in the current period and, therefore, are not reported in the funds	(891,906)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds—capital leases	<u>(16,986)</u>
Net position of governmental activities	<u>\$ 16,054,961</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Grant Fund</u>	<u>Regional Excellence Corporation</u>	<u>Total Governmental Funds</u>
Revenues				
Interest income	\$ 11,974			\$ 11,974
Membership dues	395,538			395,538
Interlocal contracts	734,742			734,742
Data services and imaging	389,465			389,465
Miscellaneous income	(214,461)			(214,461)
From grantor agencies		\$ 243,822,142	\$ 69,612	243,891,754
Total revenues	<u>1,317,258</u>	<u>243,822,142</u>	<u>69,612</u>	<u>245,209,012</u>
Expenditures				
Current:				
General government	936,046			936,046
Workforce programs		185,067,235		185,067,235
Transportation		33,126,845		33,126,845
Community and environmental		10,227,572		10,227,572
Criminal justice/Homeland security		958,987		958,987
Emergency communications		3,219,814		3,219,814
Aging services		8,750,081		8,750,081
Regional Excellence Corporation			188,720	188,720
Capital outlay:				
General government	24,341			24,341
Workforce programs				
Community and environmental				
Transportation				
Criminal justice/Homeland security				
Debt service:				
Principal	10,767			10,767
Interest	380			380
Total expenditures	<u>971,534</u>	<u>241,350,534</u>	<u>188,720</u>	<u>242,510,790</u>
Excess (deficiency) of revenues over expenditures	<u>345,724</u>	<u>2,471,608</u>	<u>(119,108)</u>	<u>2,698,222</u>
Other Financing Sources (Uses)				
Transfers in (out)	(67,673)	67,673		
Total other financing sources & uses	<u>(67,673)</u>	<u>67,673</u>		
Change in fund balance	278,051	2,539,281	(119,108)	2,698,222
Fund balance - beginning	<u>7,964,003</u>	<u>5,210,480</u>	<u>201,004</u>	<u>13,375,487</u>
Fund balance - ending	<u>\$ 8,242,054</u>	<u>\$ 7,749,761</u>	<u>\$ 81,896</u>	<u>\$ 16,073,709</u>

See accompanying notes to the financial statements

HOUSTON-GALVESTON AREA COUNCIL
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2013

Net change in fund balances-total governmental funds \$ 2,698,222

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

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

Capital outlay	168,208
Depreciation expense	<u>(477,376)</u>
Excess of capital outlay over depreciation expense	<u>(309,168)</u>

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

This activity consists of -

Decrease in compensated absences	<u>12,343</u>
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Principal payment for capital lease in 2013	<u>10,767</u>
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The Capital lease is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	<u>-</u>
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Change in net position of governmental activities \$ 2,412,168

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013**

	<u>Cooperative Purchasing</u>
ASSETS	
Current assets	
Accounts receivable	\$ 2,261,727
Due from general fund	6,304,123
Total current assets	<u>8,565,850</u>
Noncurrent assets	
Property & equipment	194,196
Less accumulated depreciation	(115,658)
Total noncurrent assets	<u>78,538</u>
Total assets	<u>8,644,388</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	90,219
Unearned revenues	34,427
Total current liabilities	<u>124,646</u>
Total liabilities	<u>124,646</u>
NET POSITION	
Net investment in capital assets	78,538
Unrestricted	8,441,204
Total net position	<u>\$ 8,519,742</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

	<u>Cooperative Purchasing</u>
REVENUES	
Charges for services	\$ 3,951,174
Total revenues	<u>3,951,174</u>
OPERATING EXPENSES	
Personnel and benefits	2,139,429
Consultant and contract services	233,433
Equipment rental and leases	95
Lease of office space	136,293
Travel	38,125
Depreciation	38,839
Other	392,696
Total expenses	<u>2,978,910</u>
Change in net position	972,264
Net position - beginning	<u>7,547,478</u>
Net position - ending	<u>\$ 8,519,742</u>

See accompanying notes to the financial statements

**HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

	<u>Cooperative Purchasing</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,927,097
Cash payments to employees for services	(2,139,429)
Cash payments to suppliers for goods and services	(220,459)
Cash payments for operating expenses	(567,209)
Cash provided (used) by operating activities	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 972,264
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	38,839
Change in assets and liabilities:	
Decrease (increase) in customer receivable	(809,839)
Decrease (increase) in interfund receivable	(185,222)
Increase (decrease) in accounts payable	12,974
Increase (decrease) in unearned revenue	(29,016)
Net cash provided (used) by operating activities	<u>\$ -</u>

See accompanying notes to the financial statements

**RETIREMENT PLAN FOR THE EMPLOYEES OF
HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF PLAN NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013**

	<u>2013</u>
ASSETS	
Investments- at fair value:	
Mutual funds	\$ 22,897,624
Money market funds	3,835,608
Participant loans	616,026
Total investments	<u>27,349,258</u>
 Total assets	 <u>27,349,258</u>
 LIABILITIES	
Employee forfeitures due to employer	14,959
Total liabilities	<u>14,959</u>
 NET POSITION HELD IN TRUST FOR PENSION BENEFITS	 <u><u>\$ 27,334,299</u></u>

See accompanying notes to financial statements

**RETIREMENT PLAN FOR THE EMPLOYEES OF
HOUSTON-GALVESTON AREA COUNCIL
STATEMENT OF CHANGES IN POSITION
FIDUCIARY FUNDS
YEARS ENDED DECEMBER 31, 2013**

	<u>2013</u>
ADDITIONS	
Contributions:	
Participants	\$ 1,045,036
Employer	787,770
Total contributions	<u>1,832,806</u>
Investment earnings:	
Net appreciation in the fair value of investments	3,509,599
Interest and dividends	889,546
Total net investment earnings	<u>4,399,145</u>
Total additions	<u>6,231,951</u>
DEDUCTIONS	
Benefit payments	3,122,630
Administrative expenses	2,713
Total deductions	<u>3,125,343</u>
Change in net position	3,106,608
Net position - beginning	<u>24,227,691</u>
Net position - ending	<u><u>\$ 27,334,299</u></u>

See accompanying notes to financial statements.

HOUSTON-GALVESTON AREA COUNCIL

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

1. REPORTING ENTITY

The Houston-Galveston Area Council (“H-GAC”) is a voluntary association of local governments that administers planning and action programs from various federal, state, and local agencies for the benefit of citizens in a 13-county region in southeast Texas. H-GAC is governed by a 36-member Board of Directors (the “Board”) which has governance responsibilities over all activities of the organization. Members of the Board are selected to serve by elected officials from the various governmental entities belonging to H-GAC. The Board has the authority to make decisions and appoint administrators and managers. H-GAC is not included in any other governmental “reporting entity” as defined by the Government of Accounting Standards Board (“GASB”) Statement No. 14, “The Financial Reporting Entity.” H-GAC is a political subdivision of the State of Texas, created pursuant to state enabling legislation.

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

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

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

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

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

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

provided by HGAC.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The statement of activities compares the direct expenses of a given function with the corresponding program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods services, or privileges provided by a function or segment and 2) contracts, grants and contributions that are restricted to meeting the operational requirement of a particular function or segment. Items not classified as program revenues are reported as general revenues.

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

The H-GAC reports the following major governmental funds:

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

The *Grant Fund* is a special revenue fund used to account for grant proceeds

provided by various grantor agencies and is restricted in use by the awarding entity.

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

The H-GAC reports the following major enterprise fund:

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

Additionally, the H-GAC reports the pension trust fund to account for the Retirement Plan for the Employees of H-GAC.

Basis of Accounting - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

absences are recorded only when payment is due.

The cooperative purchasing enterprise fund and the retirement plan trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the funds are included on the balance sheet. The accrual basis of accounting is utilized by these funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

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

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year. The council did not have nonspendable fund balance.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors,

grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Council did not have any committed fund balance.
- **Assigned:** This classification includes amounts that are constrained by the Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors. The Council did not have any assigned fund balance.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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

Federal and State Contracts - Revenues are recognized when program expenditures are incurred in accordance with program guidelines. Local matching may exceed budgeted amounts. Such excess would be used to further fund the applicable program, but does not represent a budget deviation.

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

Locally Contributed In-kind Services - Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal funding on various programs. Contributed services are, therefore, reflected as both revenues and expenditures in accordance with legal requirements of the individual contracts. Such services are

recorded in the accompanying financial statements at the amount expended by the contributor in providing the matching services, which approximates the fair value of the services at the date of contribution.

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

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

Capital Assets - Capital assets, which include furniture, fixtures, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Council as

assets with an initial, individual cost of \$5,000, and a life greater than 1 year. Such assets are recorded at historical cost, net of accumulated depreciation.

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

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

Balance			Balance	Due Within
<u>12/31/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2013</u>	<u>One Year</u>
\$ 904,249	\$ 826,074	\$ 838,417	\$ 891,906	\$ 753,974

Interfund Transfers - Interfund transfers arise from transactions between funds or the distribution of local (general fund) cash resources to grant projects requiring cash match in accordance with the terms and conditions of the grant contract. Matching funds are derived primarily from H-GAC dues paid by member governments and local in-kind contributions. The general fund will be used to liquidate the vacation liabilities.

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

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

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

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

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

3. DEPOSITS (CASH) AND INVESTMENTS

Authorization for Deposits and Investments

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

In accordance with applicable statutes, the Council has a depository contract with a local bank (depository) providing interest rates to be earned on deposited funds and fixed fees for banking services received. The Council may place funds with the depository in interest and non-interest bearing accounts. Statutes and the depository contract require full security for all funds in the depository institution through federal depository insurance or a combination of federal depository insurance and acceptable collateral securities and/or an acceptable surety bond. The depository must deliver the collateral securities to the Council or place them with an independent trustee institution. In accordance with Texas statutes, the safekeeping receipts are in the name of the depository with proper indication of pledge of the collateral securities by the depository to secure funds of the Council. The Council must approve all collateral securities pledged and also must approve in writing any changes to the pledged collateral securities.

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

The Council's investment policy permits investment of Council funds in only the

following investment types, consistent with the strategies and maturities defined in the policy:

1. Obligations of the United States or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies.
3. Other obligations, the principal of which are unconditionally guaranteed or insured by the State of Texas or the United States.
4. General obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.
5. Certificates of Deposit issued by State and National banks domiciled in the State of Texas the payment of which is insured in full by the Federal Deposit Insurance Corporation.
6. Fully collateralized direct Repurchase Agreements with a defined termination date purchased pursuant to a master contractual agreement which specified the rights and obligations of both parties and which requires that securities involved in the transaction be held in a safekeeping account subject to the control and custody of H-GAC.
7. No Load Money Market Mutual Funds and No Load Mutual Funds. To be an allowable investment, money market funds must adhere to a 90-day weighted average maturity. No-load mutual funds with a weighted average maturity of up to 2 years are allowable if they are registered with the Securities and Exchange Commission, invest exclusively in obligations authorized by the Public Funds Investment Act, adhere to the requirements set forth for investment pools and are continuously rated by at least one nationally recognized investment rating firm at not less than AAA or its equivalent. A government may invest no more than 15% of its operating funds (excluding bond proceeds, reserves and debt service funds) in this type of mutual fund.
8. Time deposits in the Council's depositories.

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

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

11. Any combination of the foregoing.

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

Deposit and Investment Amounts

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

	Cash and CDs	Money Market Mutual Funds	Hybrid Debt/Equity Mutual Funds	Total
Governmental Funds:				
General	\$18,560,785	\$ 4,062,807	\$ -	\$ 22,623,592
Grant Fund	2,968,376	-	-	2,968,376
Regional Excellence Corporation	95,444	-	-	95,444
Total Governmental Funds	<u>21,624,605</u>	<u>4,062,807</u>	<u>-</u>	<u>25,687,412</u>
Fiduciary Funds	<u>-</u>	<u>3,835,608</u>	<u>22,897,624</u>	<u>26,733,232</u>
Discreetly Presented Component Units:				
Energy Purchasing Corporation	32,857			32,857
Gulf Coast Economic Dev Corp	1,458,877			1,458,877
Local Development Corporation	<u>2,957,464</u>	<u>-</u>	<u>-</u>	<u>2,957,464</u>
Total Component Units	<u>4,449,198</u>	<u>-</u>	<u>-</u>	<u>4,449,198</u>
Total Reporting Entity	<u>\$26,073,803</u>	<u>\$ 7,898,415</u>	<u>\$ 22,897,624</u>	<u>\$ 56,869,842</u>

Credit and Interest Rate Risk

At year-end, the Council had the following investments subject to credit and interest rate

risk disclosure, under U.S. generally accepted accounting principles, by fund:

Money Market Mutual Funds	Amount	Weighted Average Maturity (Days)	Credit Rating
General Fund	\$4,062,807	44	Unrated
Fiduciary Fund	3,835,608	53	Unrated

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the Council’s deposits may not be returned to it. As of December 31, 2013, the Council’s deposit balance was fully collateralized with securities held by the pledging financial institution in the Council’s name or by FDIC insurance.

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

The following is a summary of interfund receivables and payables at December 31, 2013

	Interfund Receivables	Interfund Payables
General Fund	\$ 455,020	\$15,759,904
Grant Fund	9,455,781	455,020
Enterprise Fund	6,304,123	
Total	\$16,214,924	\$16,214,924

Interfund Transfers:	Transfers In	
	General	Total
Transfer out:		
Grant Fund	\$ 67,673	\$67,673
Total Transfers	\$ 67,673	\$ 67,673

5. RECEIVABLES

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

	<u>General Fund</u>	<u>Grant Fund</u>	<u>Cooperative Purchasing Fund</u>	<u>Energy Purchasing Corporation</u>	<u>Gulf Coast Economic Development Corporation</u>	<u>Local Development Corporation</u>
Due from member governments	\$ 4,922	\$ -	\$ -	\$ -	\$ -	\$ -
Advances to subrecipients	-	888,205	-	-	-	-
Data imagery	91,643	-	-	-	-	-
Federal grants receivable	-	335,143	-	-	240,506	-
State grants receivable	-	14,632,708	-	-	-	-
Local grants receivable	-	233,719	-	-	-	-
Due from customers	162,975	-	2,261,727	263	-	58,898
Miscellaneous services	37,375	5,926	-	-	-	-
Gross Accounts Receivable	<u>296,915</u>	<u>16,095,701</u>	<u>2,261,727</u>	<u>263</u>	<u>240,506</u>	<u>58,898</u>
Less: allowance for uncollected accounts	-	-	-	-	-	-
Accounts Receivable, Net	<u>\$ 296,915</u>	<u>\$ 16,095,701</u>	<u>\$ 2,261,727</u>	<u>\$ 263</u>	<u>\$ 240,506</u>	<u>\$ 58,898</u>

All receivables are expected to be collected within one year.

6. CAPITAL ASSETS

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

	<u>December 31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2013</u>
<u>Governmental activities:</u>				
Furniture, fixtures and equipment	\$ 2,875,585	\$ 168,208	\$ (33,262)	\$ 3,010,531
Equipment under capital leases	504,308	-	-	504,308
Less accumulated depreciation	<u>(2,180,586)</u>	<u>(477,376)</u>	<u>33,262</u>	<u>(2,624,700)</u>
	<u>\$ 1,199,307</u>	<u>\$ (309,168)</u>	<u>\$ -</u>	<u>\$ 890,139</u>
	<u>December 31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2013</u>
<u>Business-type activities:</u>				
Furniture, fixtures and equipment	\$ 194,196	\$ -	\$ -	\$ 194,196
Less accumulated depreciation	<u>(76,819)</u>	<u>(38,839)</u>	<u>-</u>	<u>(115,658)</u>
	<u>\$ 117,377</u>	<u>\$ (38,839)</u>	<u>\$ -</u>	<u>\$ 78,538</u>

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

<u>Governmental Activities-</u>	
General government	\$ 10,697
Workforce programs	143,462
Transportation	124,865
Community and Environmental	82,682
Criminal Justice & Homeland Security	68,553
Emergency Communications	22,518
Aging Services	24,599
Total Governmental Activities	<u>477,376</u>
<u>Business-type activities-</u>	
Cooperative purchasing	<u>38,839</u>
	<u>\$ 516,215</u>

7. UNEARNED REVENUE

At December 31, 2013 unearned revenue was comprised of the following:

Grant Fund:	
9-1-1	\$ 310,052
Solid Waste	127,805
Texas Emissions Reduction Plan	2,939,607
HUD Cash Match	11,367
Low Income Repair Assistance	4,866,065
C&E/Local Contracts	18,974
Transportation/Local Contracts	383,684
Criminal Justice Program	54,054
Workforce Local Program	392,700
Total Grant Fund	<u>\$ 9,104,308</u>
General Fund:	
Lease Allowance	<u>\$ 221,192</u>
Total General Fund	<u>\$ 221,192</u>
Enterprise Fund:	
Cooperative Purchasing	<u>\$ 34,427</u>
Total Enterprise Fund	<u>\$ 34,427</u>

During 2013 the cooperative purchasing enterprise fund received remittance from participants in advance of performing services. These remittances, totaling \$34,427, were classified as unearned revenue in the cooperative purchasing enterprise fund.

The Commission on State Emergency Communications (“CSEC”) provided start-up funding during the first quarter of the program year. These funds are dedicated for use in the 9-1-1 program and will be completely utilized by the end of the program year. At year end, the balance of these funds totaled \$310,052.

H-GAC receives an advance of grant funds from the Texas Commission on Environmental Quality to develop and coordinate a solid waste plan for the region. Funds received in excess of expenditures are accounted for as unearned revenue and totaled \$127,805 for this program.

Texas Commission on Environmental Quality provided funds for H-GAC to provide

grants to eligible projects in nonattainment areas and affected counties within the region. The grants offset the incremental costs associated with reducing emissions of oxides of nitrogen (NOx) from high-emitting internal combustion engines. The balance of the funds available for this purpose that were received and remained unearned at the end of the fiscal year totaled \$2,939,607.

H-GAC has contracted with the Federal Department of Housing and Urban Development (“HUD”) to develop a long-range plan for enhancing the quality of life for regional residents and evaluating economic opportunities for the 13 county region. While the federal partner has supplied the primary funds for this endeavor, many cash contributions from a wide variety of community partners have been provided to match the federal dollars. The available cash match at the end of the year was \$11,367.

H-GAC contracted with five counties to administer the Low-Income Repair Assistance Program (LIRAP) to help citizens in the county with auto maintenance requirements resulting from increased emission standards. The counties advanced funds to the Council for the implementation of this program in 2013. At year end, the advances in excess of expenditures totaled \$4,866,065.

H-GAC set aside \$54,054 in criminal justice planning money to provide assistance in developing the required Criminal Justice Community plan for Harris County and the other surrounding jurisdictions.

Other unearned revenues represent local grant funds received in 2013 and intended for use in 2014.

8. CAPITAL LEASES

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

	<u>12/31/2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2013</u>
Capital lease	<u>\$ 27,753</u>	-	<u>\$ 11,147</u>	<u>\$ 16,606</u>

The following schedule presents future minimum lease payments as of December 31, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$11,147
2015	<u>\$ 5,459</u>
Minimum lease payments	16,606
Less amount representing interest	<u>(538)</u>
Present value of net minimum lease payments	16,068
Less current portion of capital lease obligation	<u>(10,767)</u>
Long-term portion of capital lease	<u>\$ 5,301</u>

The Houston-Galveston Area Council has entered into a capital lease agreement for a color copier with a lease term of thirty-six months. It originated on June 1, 2012 and ends on June 30, 2015 with principal of \$32,179 at inception. The general fund will be used liquidate the capital lease.

9. RETIREMENT PLAN

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

H-GAC's contribution requirement. The H-GAC Board of Directors is responsible and has authority to amend the Plan provisions and contributions requirements.

H-GAC's total payroll in 2013 was \$12,973,642. Retirement plan contributions were calculated using the gross salary amount for covered employees. H-GAC and its employees made contributions in 2013 of \$787,770 and \$1,045,036 respectively. Investments in the retirement plan are stated at fair value, based upon quoted market prices of the various mutual funds in which the funds are invested.

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

10. OTHER REVENUE

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

11. COMMITMENTS AND CONTINGENCIES

Leases – During 2013, H-GAC renegotiated its lease space of approximately 65,199 square feet under an operating lease with an expiration date of November 2019 at an annual base fee of \$1,548,476 which commences in December 2014. Included in this lease is a 2% escalation annually over the term of the lease and two months of prorated rent which is amortized over the lease term. The schedule below reflects the revised lease terms. H-GAC has additional office space leased in satellite locations. These leases will terminate in March 2014 and February 2017. The base amount for these leases is \$1,611 and \$1,604 per month.

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

2014	1,331,112
2015	1,537,046
2016	1,592,820
2017	1,570,964
2018-2019	3,099,745
Total minimum rent payments due	<u>\$ 10,444,592</u>

It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other property or equipment. Total lease expense for 2013 was \$1,309,697.

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

Federal and State Grants – Use of federal, state and locally administered federal and other grant funds is subject to review and audit by fund provider agencies. Such audits could lead to requests from the grantor agency for reimbursement of expenditures disallowed under terms of the contract or grant. To the extent that such disallowances involve expenditures under subcontracted arrangements, H-GAC generally has the right of recovery from such third parties. A significant portion of the federal and state grant funds received by H-GAC are passed through to delegate agencies which administer certain parts of the grants on behalf of H-GAC. Management believes that H-GAC will not incur significant losses on possible grant disallowances.

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

H-GAC did not experience any significant reductions in insurance coverage during fiscal year 2013 and did not have any instances in which settlements exceeded insurance coverage in any of the past three fiscal years.

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

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**HOUSTON-GALVESTON AREA COUNCIL
SUPPLEMENTARY SCHEDULE OF INDIRECT COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Actual</u>	<u>Budget</u>	<u>Percentage</u>
PERSONNEL			
Indirect salaries	\$ 889,050	\$ 923,202	38.20 %
Employee benefits	406,897	420,703	17.48
	<u>1,295,947</u>	<u>1,343,905</u>	<u>55.68</u>
CONSULTANT AND CONTRACT SERVICES			
Consultant	10,040	42,947	0.43
Accounting and auditing	11,905	11,000	0.51
Other contract services	43,694	25,164	1.89
Legal Services	1,677	-	0.08
	<u>67,316</u>	<u>79,111</u>	<u>2.89</u>
EQUIPMENT			
Purchase, lease, rental or maintenance office furniture, fixtures and equipment	12,061	7,500	0.52
Depreciation	293,443	600,000	12.60
	<u>305,504</u>	<u>607,500</u>	<u>13.13</u>
LEASE OF OFFICE SPACE			
	<u>66,895</u>	<u>81,227</u>	<u>2.87</u>
TRAVEL			
	<u>23,231</u>	<u>20,400</u>	<u>1.00</u>
OTHER			
Consumable supplies	9,234	6,755	0.40
Software and Database	17,097	26,130	0.73
Communications	308	1,925	0.01
Postage	7,149	11,750	0.31
Subscriptions & memberships	68,454	59,850	2.94
Insurance	22,919	23,250	0.98
Miscellaneous	53,263	29,185	2.29
	<u>178,424</u>	<u>158,845</u>	<u>7.67</u>
Indirect Carryforward	390,054	168,554	16.76
TOTAL INDIRECT COSTS (A)	<u><u>\$ 2,327,371</u></u>	<u><u>\$ 2,459,542</u></u>	<u>100.0 %</u>
BASIS FOR ALLOCATION OF INDIRECT COSTS			
Chargeable salaries	\$ 12,973,642	\$ 13,703,792	
Employee benefits	5,914,715	6,244,818	
	<u>18,888,357</u>	<u>19,948,610</u>	
Less indirect salaries and Employee benefits	<u>(1,295,947)</u>	<u>(1,343,905)</u>	
TOTAL DIRECT SALARIES AND RELATED EMPLOYEE BENEFITS (B)	<u><u>\$ 17,592,410</u></u>	<u><u>\$ 18,604,705</u></u>	
ACTUAL INDIRECT COST RATE (A/B)	<u>13.2%</u>	<u>13.2%</u>	

**HOUSTON-GALVESTON AREA COUNCIL
SUPPLEMENTARY SCHEDULE OF H-GAC EMPLOYEE BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Amount</u>	<u>Percentage</u>
RELEASED TIME TAKEN AND ACCRUED:		
Vacation	\$ 836,388	14.14 %
Holidays	676,284	11.43
Sick leave	514,282	8.69
Other	25,953	0.44
	<u>2,052,907</u>	<u>34.70</u>
BENEFIT PROGRAMS:		
Payroll taxes	1,093,648	18.49
Retirement plan	941,359	15.92
Insurance	1,688,568	28.55
Other benefits	152,354	2.58
	<u>3,875,929</u>	<u>65.54</u>
Benefit carryforward	<u>(14,121)</u>	<u>-0.24</u>
TOTAL EMPLOYEE BENEFITS (A)	<u>\$ 5,914,715</u>	<u>100.00 %</u>
BASIS FOR ALLOCATION OF EMPLOYEE BENEFITS:		
Gross Salaries	\$ 15,026,549	
Less released time	<u>(2,052,907)</u>	
CHARGEABLE SALARIES (B)	<u>\$ 12,973,642</u>	
EMPLOYEE BENEFIT RATE (A/B)	<u>45.6 %</u>	

Statistical Section

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

Financial Trends

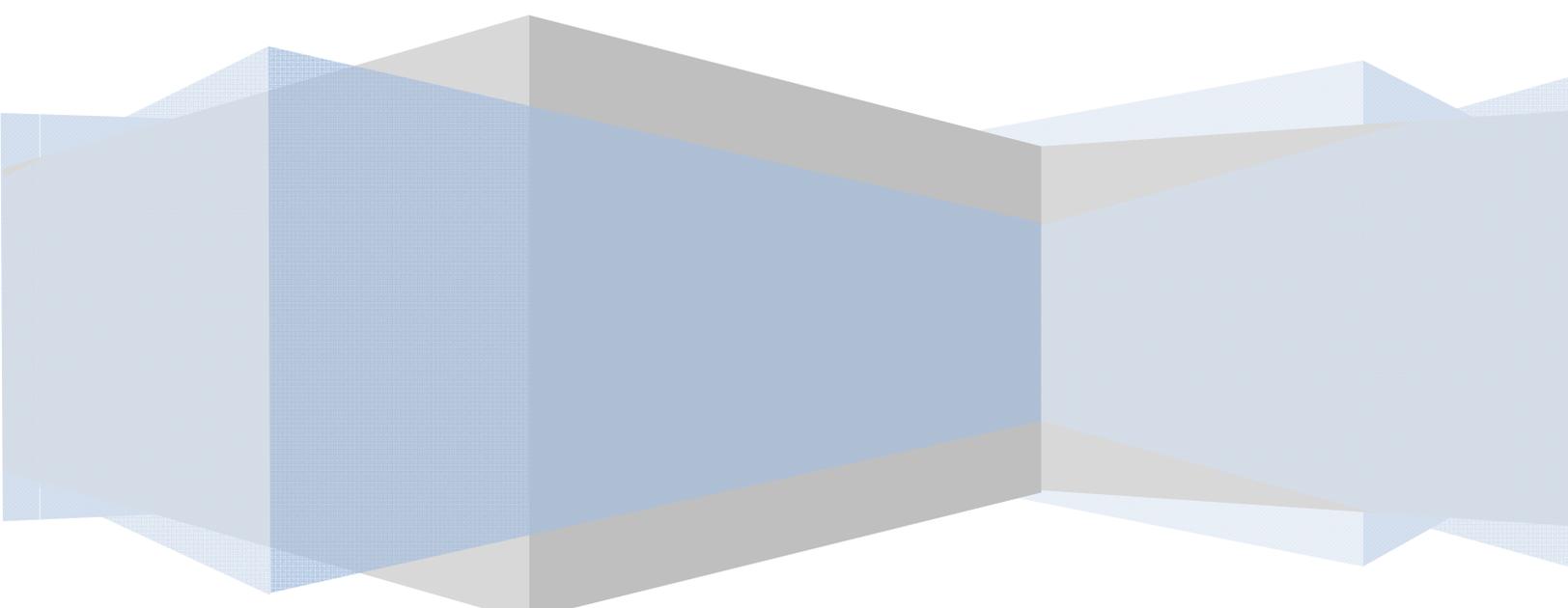
These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.

Revenue Capacity

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

Demographic and Economic Information

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



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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Governmental activities										
Invested in capital assets, net of related debt	\$ 430,793	\$ 388,381	\$ 540,890	\$ 859,120	\$ 691,645	\$ 1,441,651	\$ 1,733,977	\$ 1,536,514	\$ 1,171,554	\$ 873,153
Restricted								2,905,476	5,411,485	7,831,657
Unrestricted	4,547,880	4,749,115	5,154,466	5,523,016	6,028,190	5,989,894	6,153,368	6,655,894	7,059,754	7,350,151
Total governmental activities net position	\$ 4,978,673	\$ 5,137,496	\$ 5,695,356	\$ 6,302,136	\$ 6,719,835	\$ 7,431,545	\$ 7,887,345	\$ 11,097,883	\$ 13,642,793	\$ 16,054,961
Business-type activities										
Invested in capital assets, net of related debt	\$ 3,627	\$ 279	\$ -	\$ -	\$ -	\$ -	\$ 189,902	\$ 156,216	\$ 117,377	\$ 78,538
Unrestricted	1,494,032	1,837,831	2,214,980	2,812,946	2,859,776	4,221,915	4,921,302	5,564,522	7,430,101	8,441,204
Total business-type activities net assets	\$ 1,497,659	\$ 1,838,110	\$ 2,214,980	\$ 2,812,946	\$ 2,859,776	\$ 4,221,915	\$ 5,111,204	\$ 5,720,738	\$ 7,547,478	\$ 8,519,742
Primary government										
Invested in capital assets, net of related debt	\$ 434,420	\$ 388,660	\$ 540,890	\$ 859,120	\$ 691,645	\$ 1,441,651	\$ 1,923,879	\$ 1,692,730	\$ 1,288,931	\$ 951,691
Restricted								2,905,476	5,411,485	7,831,657
Unrestricted	6,041,912	6,586,946	7,369,446	8,335,962	8,887,966	10,211,809	11,074,670	12,220,416	14,489,855	15,791,355
Total primary government net assets	\$ 6,476,332	\$ 6,975,606	\$ 7,910,336	\$ 9,115,082	\$ 9,579,611	\$ 11,653,460	\$ 12,998,549	\$ 16,818,621	\$ 21,190,271	\$ 24,574,703

* Information reported since implementation of GASB 34

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government	\$ 1,482,865	\$ 2,063,416	\$ 3,777,906	\$ 4,072,839	\$ 7,627,031	\$ 5,000,582	\$ 3,189,351	\$ 3,192,212	\$ 3,695,088	\$ 1,123,501
Workforce programs	175,463,453	180,094,913	193,038,188	226,465,879	208,166,797	220,604,671	303,355,993	226,221,149	180,735,826	185,089,084
Transportation	45,465,898	32,279,051	40,014,600	25,009,904	22,924,182	21,520,444	30,219,209	24,111,492	23,840,134	33,229,456
Community and environmental	3,383,161	3,738,990	3,654,682	4,997,975	8,009,836	7,902,348	4,563,591	11,156,076	8,016,851	10,310,254
Criminal justice	765,195	1,171,641	1,073,613	1,045,117	1,432,448	1,480,780	1,368,165	1,604,765	848,023	1,027,540
Emergency communications	2,833,434	2,572,763	2,190,676	5,936,604	2,499,410	5,918,726	2,929,196	7,290,785	3,898,273	3,242,332
Aging services	6,412,516	6,243,085	7,011,521	7,112,240	6,652,799	9,975,099	8,603,598	9,299,666	9,144,786	8,774,680
Total governmental activities expenses	2,35,806,322	2,28,163,859	2,50,761,186	2,74,640,558	2,57,312,503	2,72,402,650	354,229,103	282,876,145	230,176,981	242,796,847
Business-type activities:										
Cooperative purchasing	28,175,082	8,968,889	1,874,891	2,100,589	2,382,046	2,344,257	2,353,892	2,647,242	2,477,374	2,978,910
Total business-type activities expenses	28,175,082	8,968,889	1,874,891	2,100,589	2,382,046	2,344,257	2,353,892	2,647,242	2,477,374	2,978,910
Total primary government expenses	\$ 2,63,981,404	\$ 2,37,132,748	\$ 2,52,636,077	\$ 2,76,741,147	\$ 2,59,694,549	\$ 2,74,746,907	\$ 3,56,582,995	\$ 2,85,523,387	\$ 2,32,656,355	\$ 2,45,775,757
Program Revenues										
Governmental activities:										
Charges for services:										
Membership dues	\$ 328,041	\$ 324,029	\$ 320,667	\$ 343,004	304,493	327,683	335,139	323,690	332,635	395,538
Interlocal contracts	756,312	1,627,229	3,062,722	3,610,855	4,347,083	4,275,528	1,797,840	2,393,802	1,710,860	734,742
Data services and imaging	-	-	-	-	2,908,167	878,651	842,738	355,006	1,279,097	389,465
Operating grants and contributions	234,142,154	226,026,149	246,943,370	270,510,949	249,670,801	267,824,047	351,325,543	282,374,159	228,699,778	243,745,694
Total governmental activities program revenues	235,226,507	227,977,407	250,326,759	274,464,808	257,230,544	273,305,909	354,301,260	285,446,657	232,022,370	245,265,439
Business-type activities:										
Charges for services:										
Cooperative purchasing	28,671,316	9,338,637	2,259,985	2,633,384	2,315,885	3,882,653	3,243,181	3,256,776	4,304,114	3,951,174
Total business-type activities program revenues	28,671,316	9,338,637	2,259,985	2,633,384	2,315,885	3,882,653	3,243,181	3,256,776	4,304,114	3,951,174
Total primary government program revenues	\$ 263,897,823	\$ 237,316,044	\$ 252,586,744	\$ 277,098,192	\$ 259,546,429	\$ 277,188,562	\$ 357,544,441	\$ 288,703,433	\$ 236,326,484	\$ 249,216,613
Net (Expense)/Revenue										
Governmental activities	\$ (579,815)	\$ (186,452)	\$ (434,427)	\$ (175,750)	\$ (81,959)	\$ 903,259	\$ 72,157	\$ 2,570,512	\$ 1,843,389	\$ 2,468,592
Business-type activities	496,234	369,748	385,094	532,795	(66,161)	1,538,396	889,289	609,534	1,826,740	972,264
Total primary government net expense	\$ (83,581)	\$ 183,296	\$ (49,333)	\$ 357,045	\$ (148,120)	\$ 2,441,655	\$ 961,446	\$ 3,180,046	\$ 3,670,129	\$ 3,440,856
General Revenues and Other Changes in Net Assets										
Governmental activities:										
State financial assistance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	93,977	268,557	448,612	318,535	169,199	17,511	42,374	70,482	14,668	158,039
Miscellaneous	680,350	292,958	966,052	746,105	784,359	288,404	341,270	522,311	696,854	(214,461)
Total governmental activities	\$ 774,327	\$ 561,515	\$ 1,414,664	\$ 1,064,640	\$ 953,558	\$ 305,915	\$ 383,644	\$ 592,793	\$ 711,522	\$ (96,422)
Business-type activities:										
State financial assistance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	194,512	375,063	980,237	888,890	871,599	1,209,174	455,801	3,163,305	2,554,909	2,412,168
Miscellaneous	496,234	369,748	385,094	532,795	(66,161)	1,538,396	889,289	609,534	1,826,740	972,264
Total business-type activities	\$ 690,746	\$ 744,811	\$ 1,365,331	\$ 1,421,685	\$ 805,438	\$ 2,747,570	\$ 1,345,089	\$ 3,772,838	\$ 4,381,649	\$ 3,384,432

* Information reported since implementation of GASB 34

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ -	\$ 240,391	\$ 242,510	\$ 173,723	\$ 205,943	\$ 81,395	\$ 116,622	\$ 115,315	\$ 83,951	\$ 179,415
Unreserved	4,860,128	5,006,864	5,410,724	5,869,058	6,303,264	6,432,577	6,654,711	7,161,978	7,880,052	8,062,639
Total general fund	\$ 4,860,128	\$ 5,247,255	\$ 5,653,234	\$ 6,042,781	\$ 6,509,207	\$ 6,513,972	\$ 6,771,333	\$ 7,277,293	\$ 7,964,003	\$ 8,242,054
All Other Governmental Funds										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,790,161	\$ 5,210,480	\$ 7,749,761
Unreserved, reported in:										
Component Unit-Regional Excellence	\$ 192,222	\$ 78,324	\$ 74,691	\$ 124,983	\$ 246,617	\$ 192,845	\$ 228,990	\$ 266,224	\$ 201,005	\$ 81,896
Total all other governmental funds	\$ 192,222	\$ 78,324	\$ 74,691	\$ 124,983	\$ 246,617	\$ 192,845	\$ 228,990	\$ 3,056,385	\$ 5,411,485	\$ 7,831,657

* Information reported since implementation of GASB 34

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

(modified accrual basis of accounting)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues										
Interest income	\$ 93,977	\$ 268,557	\$ 448,612	\$ 318,535	\$ 169,199	\$ 17,511	\$ 42,374	\$ 70,482	\$ 14,668	\$ 11,974
Membership dues	328,041	324,029	320,667	343,004	304,493	327,684	335,139	323,690	332,635	395,538
Interlocal contracts	756,312	546,593	1,397,582	1,772,747	2,231,238	1,852,880	1,797,840	2,393,802	1,710,860	734,742
Data services and imaging	556,434	111,032	709,558	415,083	2,908,167	878,651	842,738	355,006	1,279,097	389,465
Miscellaneous income	123,916	181,926	256,494	331,022	784,359	288,410	341,270	522,311	696,854	(214,461)
Operating grants and contributions	234,142,153	226,026,149	246,943,369	270,510,948	249,670,801	267,824,046	351,325,543	282,374,159	228,699,778	243,891,754
Total revenues	236,000,833	227,458,286	250,076,282	273,691,339	256,068,257	271,189,182	354,684,904	286,039,450	232,733,892	245,209,012
Expenditures										
General government	1,457,140	884,418	2,318,171	2,326,981	5,779,279	2,754,758	2,866,929	3,111,232	3,397,292	936,046
Workforce programs	175,318,970	179,947,974	192,988,668	226,420,911	208,107,447	220,546,495	303,505,280	226,130,967	180,661,303	185,067,235
Transportation	45,370,545	32,185,142	39,928,531	24,944,943	22,846,634	21,400,894	30,067,030	23,951,444	23,672,771	33,126,845
Community and environmental	3,359,122	3,723,915	3,636,341	4,980,113	7,981,947	8,176,308	4,529,900	11,075,539	7,926,066	10,227,572
Criminal justice	758,118	1,165,767	1,067,250	1,039,398	1,606,226	1,454,588	1,652,330	1,544,171	773,435	958,987
Emergency communications	2,829,696	2,567,408	2,185,852	5,932,603	2,490,825	5,910,612	2,912,647	7,290,076	3,876,498	3,219,814
Aging services	6,400,142	6,232,693	7,002,906	7,105,642	6,642,238	9,962,271	8,584,279	9,330,307	9,106,269	8,750,081
Regional excellence corporation	9,750	300,827	213,968	114,505	93,394	411,101	164,759	80,259	152,719	188,720
Debt service:										
Principal	45,714	48,322	24,015	-	-	43,329	28,106	26,762	23,732	10,767
Interest	5,200	2,925	496	-	-	9,428	6,542	4,085	1,397	380
Capital outlay	175,310	127,020	307,738	466,404	32,020	668,401	73,594	161,253	134,508	24,341
Total expenditures	235,729,707	227,186,411	249,673,936	273,331,500	255,515,970	271,338,187	354,391,398	282,706,095	229,725,992	242,510,790
Excess of revenues over (under) expenditures	271,126	271,875	402,346	359,839	552,287	(149,005)	293,506	3,333,355	3,007,900	2,698,222
Other Financing Sources (Uses)										
Capital leases	1,375	1,354	-	80,000	98,038	-	-	-	33,910	-
Total other financing sources (uses)	1,375	1,354	-	80,000	98,038	100,000	-	-	33,910	-
Net change in fund balances	\$ 272,501	\$ 273,229	\$ 402,346	\$ 439,839	\$ 650,325	\$ (49,005)	\$ 293,506	\$ 3,333,355	\$ 3,041,810	\$ 2,698,222
Debt service as a percentage of noncapital expenditures	0.02%	0.02%	0.01%	0.00%	0.00%	0.02%	0.01%	0.01%	0.01%	0.00%

* Information reported since implementation of GASB 34

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

Function/Program	Fiscal Year										
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Executive											
Executive Director's Office	3	3	3	4	4	4	4	4	4	4.5	4
Internal audit	3	3	3	3	3	3	3	3	2	3.5	4
Finance and administration											
Finance	12	10	10	10	11	13	14	15.5	14	15	14
Office services	8	8	7	6	6	4	4	4	5	5	4
Program services											
Chief Operating Officer	2	2	3	3	2	2	2	2	2	1	1
Community and environmental planning	25	24	26	26.5	31.5	31	36.5	37.5	37	42.5	45.5
Data services	17	14	13	12	11	13	13	12	12.5	15.5	16.5
Human services	52	50.5	51	50	53.5	66.5	62	64	60	59	56
Public services	30	23	25.5	29	32	33	35	40	38	30	32
Transportation	49	54	54	54	58	53	57.5	58	58	61	58
Total	201	191.5	195.5	197.5	212	222.5	231	240	232.5	237	235

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

Company	Employees
Memorial Hermann Health System	19,500
The University of Texas MD Anderson United Airlines	19,200
Exxon Mobil Corporation	17,000
Shell Oil Company	13,191
Houston Methodist	13,000
Kroger Company	13,000
National Oilwell Varco	12,000
Schlumberger Limited	10,000
BP America, Inc.	10,000
	9,537

Source: Greater Houston Partnership

COUNTY PROFILES

Austin County

Land Area (sq. miles)	653
Persons per Square Mile	44
County Seat	Bellville
Population (2012)	28,618
Race	
<i>White</i>	18,420
<i>Black</i>	2,586
<i>Asian</i>	121
<i>Hispanic</i>	7,108
<i>Two or More Races and Other</i>	382
Households and Families (2012)	
Total households	12,826
Average family size	3.06
Average Household Size	2.60
Vital Statistics 2010	
Marriages	188
Divorces	110
Births	366
Male	209
Female	157
Deaths	256
Unemployment Rate 2013	4.90%

Brazoria County

Land Area (sq. miles)	1,386
Persons per Square Mile	231
County Seat	Angleton
Population (2012)	324,769
Race	
<i>White</i>	167,639
<i>Black</i>	40,268
<i>Asian</i>	18,534
<i>Hispanic</i>	92,718
<i>Two or More Races and Other</i>	5,610
Households and Families (2012)	
Total households	118,795
Average family size	3.28
Average Household Size	2.84
Vital Statistics 2010	
Marriages	1,827
Divorces	1,062
Births	4,898
Male	2,543
Female	2,355
Deaths	1,888
Unemployment Rate 2013	7.00%

Chambers County

Land Area (sq. miles)	599
Persons per Square Mile	60
County Seat	Anahuac
Population (2012)	36,196
Race	
<i>White</i>	25,133
<i>Black</i>	2,837
<i>Asian</i>	376
<i>Hispanic</i>	7,332
<i>Two or More Races and Other</i>	518
Households and Families (2012)	
Total households	13,362
Average family size	3.27
Average Household Size	2.92
Vital Statistics 2010	
Marriages	210
Divorces	161
Births	481
Male	228
Female	253
Deaths	219
Unemployment Rate 2013	6.20%

Colorado County

Land Area (sq. miles)	963
Persons per Square Mile	21
County Seat	Columbus
Population (2012)	20,696
Race	
<i>White</i>	12,202
<i>Black</i>	2,603
<i>Asian</i>	94
<i>Hispanic</i>	5,602
<i>Two or More Races and Other</i>	195
Households and Families (2012)	
Total households	10,487
Average family size	3.05
Average Household Size	2.51
Vital Statistics 2010	
Marriages	115
Divorces	65
Births	267
Male	130
Female	137
Deaths	246
Unemployment Rate 2013	4.50%

Fort Bend County

Land Area (sq. miles)	875
Persons per Square Mile	694
County Seat	Richmond
Population (2012)	627,293
Race	
White	224,200
Black	129,347
Asian	112,011
Hispanic	150,755
Two or More Races and Other	10,980
Households and Families (2012)	
Total households	196,014
Average family size	3.44
Average Household Size	3.09
Vital Statistics 2010	
Marriages	2,650
Divorces	1,629
Births	7,840
Male	4,048
Female	3,792
Deaths	2,311
Unemployment Rate 2013	5.00%

Galveston County

Land Area (sq. miles)	398
Persons per Square Mile	743
County Seat	Galveston
Population (2012)	300,484
Race	
White	175,965
Black	40,036
Asian	9,449
Hispanic	69,608
Two or More Races and Other	5,426
Households and Families (2012)	
Total households	133,207
Average family size	3.16
Average Household Size	2.63
Vital Statistics 2010	
Marriages	1,888
Divorces	1,032
Births	3,945
Male	1,953
Female	1,992
Deaths	2,219
Unemployment Rate 2013	5.90%

Harris County

Land Area (sq. miles)	1,729
Persons per Square Mile	2,418
County Seat	Houston
Population (2012)	4,253,700
Race	
White	1,370,134
Black	787,781
Asian	271,748
Hispanic	1,764,047
Two or More Races and Other	59,990
Households and Families (2012)	
Total households	1,600,395
Average family size	3.43
Average Household Size	2.82
Vital Statistics 2010	
Marriages	28,549
Divorces	13,516
Births	68,166
Male	34,603
Female	33,563
Deaths	21,897
Unemployment Rate 2013	5.50%

Liberty County

Land Area (sq. miles)	1,160
Persons per Square Mile	66
County Seat	Liberty
Population (2012)	76,571
Race	
White	52,025
Black	8,177
Asian	404
Hispanic	14,761
Two or More Races and Other	1,204
Households and Families (2012)	
Total households	28,823
Average family size	3.28
Average Household Size	2.81
Vital Statistics 2010	
Marriages	578
Divorces	325
Births	1,064
Male	558
Female	506
Deaths	694
Unemployment Rate 2013	7.40%

Matagorda County

Land Area (sq. miles)	1,114
Persons per Square Mile	33
County Seat	Bay City
Population (2012)	36,547
Race	
White	17,053
Black	3,939
Asian	720
Hispanic	14,384
Two or More Races and Other	451
Households and Families (2012)	
Total households	18,841
Average family size	3.17
Average Household Size	2.61
Vital Statistics 2010	
Marriages	283
Divorces	140
Births	538
Male	267
Female	271
Deaths	354
Unemployment Rate 2013	9.00%

Montgomery County

Land Area (sq. miles)	1,044
Persons per Square Mile	452
County Seat	Conroe
Population (2012)	485,047
Race	
White	339,558
Black	20,781
Asian	11,209
Hispanic	105,014
Two or More Races and Other	8,485
Households and Families (2012)	
Total households	177,759
Average family size	3.22
Average Household Size	2.78
Vital Statistics 2010	
Marriages	2,784
Divorces	1,931
Births	6,399
Male	3,235
Female	3,164
Deaths	2,840
Unemployment Rate 2013	4.70%

Walker County

Land Area (sq. miles)	787
Persons per Square Mile	87
County Seat	Huntsville
Population (2012)	68,408
Race	
White	39,589
Black	15,306
Asian	682
Hispanic	11,870
Two or More Races and Other	961
Households and Families (2012)	
Total households	24,324
Average family size	3.02
Average Household Size	2.44
Vital Statistics 2010	
Marriages	484
Divorces	133
Births	614
Male	342
Female	272
Deaths	472
Unemployment Rate 2013	5.60%

Waller County

Land Area (sq. miles)	514
Persons per Square Mile	86
County Seat	Hempstead
Population (2012)	44,357
Race	
White	19,787
Black	10,361
Asian	263
Hispanic	13,330
Two or More Races and Other	616
Households and Families (2012)	
Total households	15,772
Average family size	3.29
Average Household Size	2.81
Vital Statistics 2010	
Marriages	270
Divorces	172
Births	594
Male	304
Female	291
Deaths	284
Unemployment Rate 2013	5.10%

Wharton County

Land Area (sq. miles)	1,090
Persons per Square Mile	38
County Seat	Wharton
Population (2012)	41,285
Race	
<i>White</i>	19,243
<i>Black</i>	5,614
<i>Asian</i>	192
<i>Hispanic</i>	15,908
<i>Two or More Races and Other</i>	328
Households and Families (2012)	
Total households	17,154
Average family size	3.22
Average Household Size	2.70
Vital Statistics 2010	
Marriages	210
Divorces	127
Births	567
Male	288
Female	279
Deaths	399
Unemployment Rate 2013	5.20%

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

Total Population and Change in Population Census 1970 - 2012

County	Census							Census Estimates		
	1970	1980	1990	2000	2010	2011	2012	2013		
Austin	13,831	17,726	19,832	23,590	28,421	28,634	28,618	28,847		
Brazoria	108,312	169,587	191,707	241,767	314,498	319,227	324,769	330,242		
Chambers	12,187	18,538	20,088	26,031	35,290	35,477	36,196	36,812		
Colorado	17,638	18,823	18,383	20,390	20,878	20,742	20,696	20,752		
Fort Bend	52,314	130,846	225,421	354,452	590,997	607,952	627,293	652,365		
Galveston	169,812	195,940	217,396	250,158	292,263	295,193	300,484	306,782		
Harris	1,741,912	2,409,547	2,818,101	3,400,578	4,107,917	4,173,695	4,253,700	4,336,853		
Liberty	33,014	47,088	52,726	70,154	75,840	75,945	76,571	76,907		
Matagorda	27,913	37,828	36,928	37,957	36,722	36,708	36,547	36,592		
Montgomery	49,479	128,487	182,201	293,768	459,291	471,704	485,047	499,137		
Walker	27,680	41,789	50,917	61,758	68,150	68,203	68,408	68,817		
Waller	14,285	19,798	23,389	32,663	43,423	44,023	44,357	45,213		
Wharton	36,729	40,242	39,955	41,188	41,327	41,264	41,285	41,216		
H-GAC Region	2,305,106	3,276,239	3,897,044	4,854,454	6,115,017	6,218,767	6,343,971	6,480,535		
Texas	11,196,730	14,229,191	16,986,335	20,851,820	25,145,561	25,631,778	26,059,203	26,448,193		

Source: U.S. Census Bureau (1970-2006)
Census Population Estimates

Texas 2013 State Expenditures By County
 Summary for the H-GAC Region, Ranked by Expenditures

RANK	County	HIGHWAY									
		INTERGOVERNMENTAL PAYMENTS	LABOR COSTS	PUBLIC ASSISTANCE	CONSTRUCTION & MAINTENANCE	OPERATING EXPENSES	CAPITAL OUTLAYS	MISCELLANEOUS	TOTAL	% of Expenditures in Region	
1	Harris	\$4,013,807,563	\$2,258,225,392	\$8,883,529,791	\$710,833,221	\$178,534,858	\$110,671,403	\$376,126,397			
2	Dallas	2,600,007,707	3,014,339,099	3,825,862,253	232,639,621	374,490,645	101,085,059	685,788,563			
3	Travis	838,959,492	3,918,277,378	2,063,474,082	52,451,795	308,935,827	62,253,089	1,147,093,427			
4	Bexar	2,091,752,952	893,562,646	4,295,839,461	107,204,729	76,262,256	16,877,959	156,368,331			
5	Tarrant	1,745,553,734	584,686,635	3,498,469,295	559,983,268	46,870,434	13,268,112	116,612,835			
6	Hidalgo	1,906,243,610	338,094,460	982,820,974	44,876,808	13,998,490	4,085,377	24,558,872			
7	El Paso	1,278,523,475	379,344,825	1,232,199,338	44,950,203	11,937,547	402,369	36,994,651			
8	Cameron	882,722,649	190,001,177	612,066,548	42,494,480	8,789,418	324,054	12,352,292			
9	Williamson	342,760,476	704,004,219	538,721,754	58,684,872	41,178,113	4,703,007	36,248,158			
10	Denton	475,642,625	357,032,130	672,461,294	97,283,500	16,399,756	11,415,630	32,727,607			
12	Fort Bend	574,459,328	257,037,335	721,905,693	15,822,319	13,478,246	712,105	22,786,402			
17	Galveston	370,275,668	392,806,427	351,513,632	26,174,269	12,131,952	1,782,911	17,275,587			
18	Montgomery	413,559,783	154,979,909	404,701,034	79,084,158	14,251,510	454,778	39,829,748			
21	Brazoria	292,137,908	155,850,942	429,846,862	40,931,371	11,281,911	511,093	17,963,161			
34	Walker	49,135,101	245,456,550	47,309,047	23,376,504	23,616,164	59,870	22,963,234			
52	Liberty	82,559,861	41,221,853	85,563,631	11,468,142	3,707,288	62,329	10,912,273			
62	Wharton	53,681,026	23,994,827	81,765,964	8,850,229	12,088,630	147,752	1,819,748			
88	Waller	19,302,255	59,426,905	31,754,892	2,070,552	4,948,202	-	3,013,759			
89	Matagorda	36,994,677	14,749,446	51,592,648	7,138,915	3,395,103	-	1,128,524			
104	Chambers	39,088,245	10,946,727	27,978,915	5,495,353	2,956,771	-	3,150,790			
113	Austin	21,451,299	16,216,310	29,543,890	10,533,541	1,068,264	78,172	1,838,625			
124	Colorado	16,988,360	10,141,339	26,851,640	1,312,520	4,254,715	1,435,075	1,796,328			
Total State Expenditures		\$27,457,142,643	\$21,242,003,053	\$42,358,494,675	\$4,491,456,827	\$1,906,721,289	\$412,836,102	\$3,876,344,191			
Total Regional Expenditures		5,983,441,074	3,641,053,962	11,173,857,639	943,091,094	285,713,614	115,915,488	520,604,576			
% of Expenditures in Region		22.3%	17.1%	26.4%	21.0%	15.0%	28.1%	13.4%			

**Texas 2013 State Expenditures
Council of Government Summary, Ranked by Expenditures**

Rank	COG Region	Total	Intergovernmental Payments	Labor Costs	Public Assistance	Highway Construction	Operating Expenses	Capital Outlays	Miscellaneous
1	North Central Texas	\$23,770,507,111	\$6,328,272,085	\$4,529,416,188	\$9,873,394,736	\$1,424,653,525	\$496,554,092	\$134,816,777	\$983,399,707
2	Houston-Galveston Area	22,663,677,448	5,983,441,075	3,641,053,961	11,173,857,639	943,091,095	285,713,614	115,915,489	520,604,575
3	Capital Area	11,775,925,835	1,512,862,637	5,248,746,367	3,075,707,673	207,829,484	377,319,026	75,660,637	1,277,800,011
4	Alamo Area	9,345,697,806	2,507,899,575	1,219,923,531	4,983,850,149	205,388,239	118,109,592	22,922,541	287,604,179
5	Lower Rio Grande Valley	5,154,009,524	2,835,380,808	539,483,959	1,613,835,189	90,500,987	23,485,354	4,409,431	46,913,796
6	Rio Grande	3,100,792,991	1,318,829,321	416,383,061	1,256,919,577	53,037,490	17,155,611	402,869	38,065,061
7	East Texas	2,903,282,605	728,558,302	571,476,579	1,325,246,761	103,709,829	51,992,185	999,745	121,299,203
8	Coastal Bend	2,589,616,112	641,201,849	429,233,306	1,267,541,135	138,128,038	57,183,536	3,894,700	52,433,548
9	South Plains	2,051,197,754	467,073,343	622,870,055	764,762,944	94,770,407	29,074,955	22,114,840	50,531,210
10	Central Texas	1,783,765,312	534,821,662	346,381,779	613,946,614	217,828,701	14,960,313	1,051,896	54,774,345
11	Brazos Valley	1,761,192,423	230,261,646	868,472,940	413,896,379	90,117,571	49,043,165	12,057,255	97,343,467
12	West Central Texas	1,614,101,673	366,374,744	375,884,965	737,534,011	47,946,136	34,581,941	396,094	51,383,781
13	Deep East Texas	1,599,403,410	419,429,901	383,018,493	594,988,145	119,101,143	44,815,397	394,018	37,656,312
14	Heart of Texas	1,569,294,095	432,622,183	296,489,640	519,529,808	243,031,632	29,013,234	1,774,939	46,832,659
15	Panhandle	1,443,859,008	460,175,006	315,947,508	543,773,675	72,934,638	32,013,371	816,730	18,198,080
16	South East Texas	1,369,623,498	310,975,246	274,057,738	687,440,629	48,924,591	20,880,926	6,541,977	20,802,393
17	South Texas	1,258,601,679	683,174,947	129,740,616	352,114,721	60,603,732	9,735,833	2,880	23,228,951
18	Permian Basin	1,227,912,391	311,454,399	209,570,661	601,648,285	47,659,081	33,614,557	135,253	23,830,155
19	Ark-Tex	1,115,997,864	335,450,186	161,352,061	443,401,084	59,281,158	92,873,909	1,561,099	22,078,368
20	Nortex	906,234,307	207,469,163	248,023,519	356,841,053	52,209,006	19,232,970	643,912	21,814,883
21	Concho Valley	770,205,237	160,783,529	146,171,565	405,458,283	35,001,193	12,974,001	123,032	9,693,634
22	Middle Rio Grande	694,999,976	294,232,933	76,344,433	247,700,577	42,941,322	21,400,172	195,614	12,184,926
23	Golden Crescent	643,755,281	182,687,288	99,138,995	273,340,854	42,376,219	22,292,254	3,978,702	19,940,968
24	Texoma	631,345,439	203,710,814	92,821,130	231,764,756	50,391,			

TOTAL EXPENDITURES	101,744,998,780	\$27,457,142,643	\$21,242,003,053	\$42,358,494,675	\$4,491,456,827	\$1,906,721,289	\$412,836,102	\$3,876,344,191
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Source: Texas Comptroller of Public Accounts

Voter Registration 1996 - 2013 Elections

	Number of Precincts	Total Registered Voters											
		1996	1998	2000	2002	2004	2006	2008	2010	2012	2013		
Austin	18	13,223	14,115	14,905	15,019	16,123	17,034	18,035	17,858	18,005	18,109		
Brazoria	65	120,294	135,443	147,811	147,972	150,164	157,705	172,083	170,784	178,505	177,163		
Chambers	13	14,451	16,070	17,479	17,808	18,458	20,450	22,660	23,182	24,445	24,178		
Colorado	12	12,130	11,558	12,040	11,746	12,339	13,008	13,709	13,379	13,349	13,224		
Fort Bend	142	148,169	175,820	202,706	213,061	227,775	256,461	299,110	309,026	339,694	343,434		
Galveston	132	153,653	168,481	176,888	172,483	173,848	182,743	189,357	182,802	185,379	183,988		
Harris	1004	1,592,569	1,755,809	1,886,581	1,866,381	1,808,048	1,871,929	1,959,284	1,937,850	2,000,011	1,981,337		
Liberty	30	36,648	39,323	42,270	42,790	44,721	44,359	45,526	43,597	43,198	41,102		
Matagorda	18	21,956	22,866	23,095	21,512	20,607	20,890	21,703	21,131	21,387	20,547		
Montgomery	86	138,348	159,571	183,958	188,100	197,107	215,878	243,539	249,954	264,980	265,825		
Walker	18	26,595	29,041	29,556	27,344	26,887	28,190	30,998	30,189	30,781	29,500		
Waller	20	17,225	18,539	20,123	21,561	24,404	24,709	29,623	31,000	29,838	28,087		
Wharton	12	21,003	22,009	22,612	22,587	23,618	24,583	25,002	24,741	24,684	24,161		
H-GAC region	1,570	2,316,264	2,568,645	2,780,024	2,768,364	2,744,099	2,877,939	3,070,629	3,055,493	3,174,256	3,150,655		

Source: Office of the Texas Secretary of State

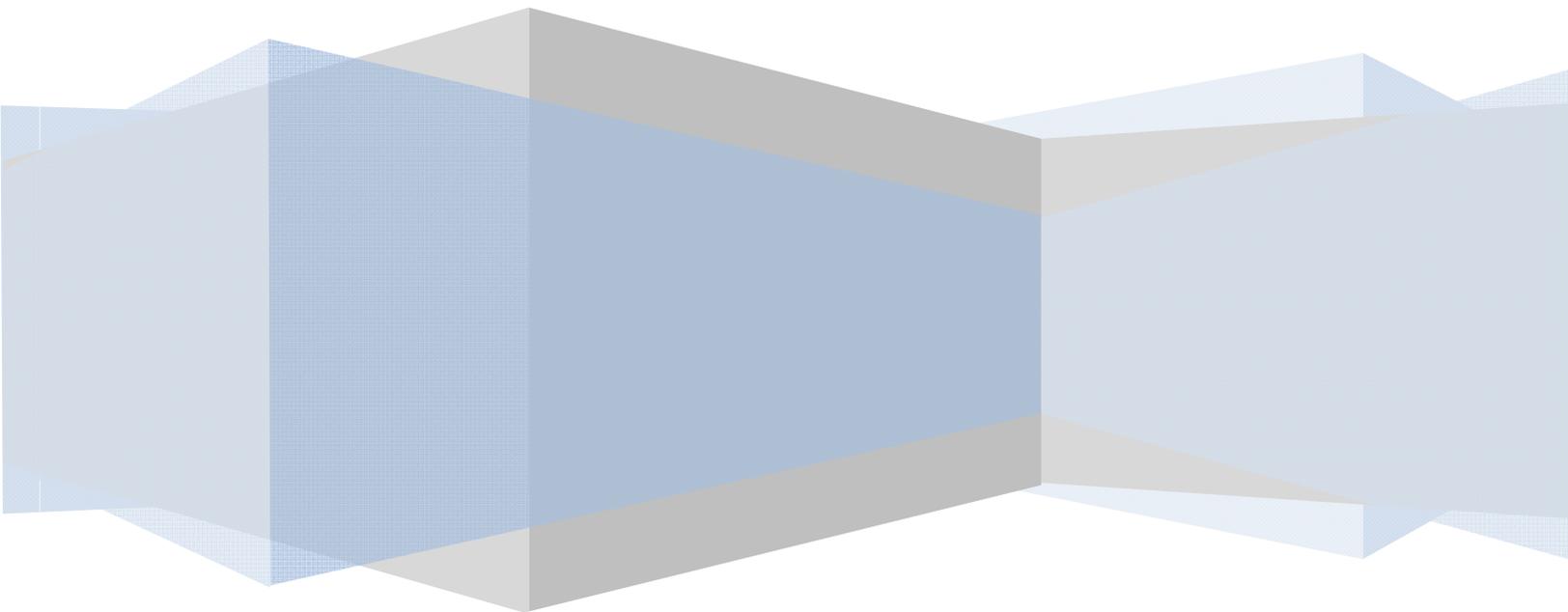
2012 General Election Results by County

	Registered Voters	Total Votes	Turn Out	Republican	Democratic	Libertarian	Other
Austin	18,005	11,649	64.70%	9,265	2,252	96	36
Brazoria	178,505	106,739	59.80%	70,862	34,421	1127	329
Chambers	24,445	14,735	60.28%	11,787	2,790	120	38
Colorado	13,349	8,117	60.81%	6,026	2,029	45	17
Fort Bend	339,694	219,489	64.61%	116,126	101,144	1719	500
Galveston	185,379	110,078	59.38%	69,059	39,511	1191	317
Harris	2,000,011	1,188,585	59.43%	586,073	587,044	11,098	4,370
Liberty	43,198	22,746	52.66%	17,323	5,202	170	51
Matagorda	21,387	12,133	56.73%	8,040	3,980	96	17
Montgomery	264,980	173,113	65.33%	137,969	32,920	1718	506
Walker	30,781	18,685	60.70%	12,140	6,252	204	89
Waller	29,838	15,902	53.29%	9,244	6,514	100	44
Wharton	24,684	14,087	57.07%	9,750	4,235	68	34
H-GAC regio	3,174,256	1,916,058	60.36%	1,063,664	828,294	17,752	6,348

Source: Office of the Secretary of State

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Single Audit Section



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Houston-Galveston Area Council

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Houston-Galveston Area Council (the “Council”), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Council’s basic financial statements, and have issued our report thereon dated June 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Council’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Council’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Houston-Galveston Area Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
June 9, 2014

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

To the Board of Directors
Houston-Galveston Area Council

Report on Compliance for Each Major Federal Program

We have audited Houston-Galveston Area Council's (the "Council") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Uniform Grant Management Standards* that could have a direct and material effect on each of Council's major federal programs for the year ended December 31, 2013. The Council's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*, and the *State of Texas Uniform Grant Management Standards*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Council's compliance.

To the Board of Directors
Houston-Galveston Area Council

Opinion on Each Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State of Texas Uniform Grant Management Standards*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the *State of Texas Uniform Grant Management Standards*. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Houston, Texas
June 9, 2014

HOUSTON-GALVESTON AREA COUNCIL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
FEDERAL PROGRAMS				
PRIMARY GOVERNMENT:				
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through the Texas Workforce Commission				
2813SNE001	SNAP E&T - 2013	10.561	1,883,431	1,802,002
2813SNA000	SNAP E&T ABAWD - 2013	10.561	960,415	952,994
2814SNA000	SNAP E&T ABAWD - 2014	10.561	91,260	91,175
	Subtotal - 10.561		<u>2,935,107</u>	<u>2,846,171</u>
	Total - Texas Workforce Commission		<u>2,935,107</u>	<u>2,846,171</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>2,935,107</u>	<u>2,846,171</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Program				
TXRIP0035-10	Sustainable Communities Regional Planning	14.703	1,583,329	-
	Total - Direct Program		<u>1,583,329</u>	<u>-</u>
Passed Through the Texas Department of Agriculture				
C711218	Community Development Block Grant - 2012	14.228	(1,165)	-
C712218	Community Development Block Grant - 2013	14.228	14,248	-
	Total - Texas Department of Agriculture		<u>13,083</u>	<u>-</u>
Passed Through the General Land Office				
09-6838-000-5233	CDBG - IKE Recovery	14.228	2,856	-
72090016	CDBG - IKE/Dolly Funding	14.228	1,124,709	933,955
12-506-000-6719	CDBG - Disaster Recovery Program Non-Rental Housing Projects	14.228	736,267	91,697
12-505-000-6718	CDBG - IKE Admin Rental	14.228	109,409	-
13-245-000-7444	CDBG - Disaster Recovery Program Non-Rental Housing Projects-Chambers	14.228	2,451,615	2,155,817
	Subtotal - 14.228		<u>4,424,855</u>	<u>3,181,469</u>
	Total - General Land Office		<u>4,424,855</u>	<u>3,181,469</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>6,021,268</u>	<u>3,181,469</u>
U.S. DEPARTMENT OF LABOR				
Passed Through the Texas Workforce Commission				
2813RAG000	Employment Services - Resource Admin Grant - 2013	17.207	17,357	-
2814RAG000	Employment Services - Resource Admin Grant - 2014	17.207	2,396	-
2813WPA000	Employment Services - 2013	17.207	1,010,388	900,000
2814WPA000	Employment Services - 2014	17.207	115,471	100,000
2813PAA000	Performance Incentive Award	17.207	2,500	2,500
	Subtotal - Employment Service Cluster		<u>1,148,113</u>	<u>900,000</u>
2812EUC000	Emergency Unemployment Compensation	17.225	267,126	266,107
2813RAG000	Unemployment Insurance - Resource Admin Grant - 2013	17.225	5,785	-
2814RAG000	Unemployment Insurance - Resource Admin Grant - 2014	17.225	799	-
	Subtotal - 17.225		<u>273,710</u>	<u>266,107</u>
2813TRA000	Trade Act Services for Dislocated Workers - 2013	17.245	784,809	754,455
2814TRA000	Trade Act Services for Dislocated Workers - 2014	17.245	8,472	(7,262)
	Subtotal - 17.245		<u>793,281</u>	<u>747,193</u>
2812WIA000	WIA Adult Program - 2012	17.258	8,849,596	8,352,323
2812WYI000	WIA Youth - PY2012	17.259	9,612,685	8,986,239
2813WYI000	WIA Youth - PY2013	17.259	396,600	396,600
2813PAA000	Performance Incentive Award	17.259	250	250
2812WID000	WIA Dislocated Worker - PY11/FY13	17.278	8,315,757	7,645,920
2813PAA000	Performance Incentive Award	17.278	2,250	2,250
2812WAA001	WIA Additional Assistance	17.278	536,390	507,669
2813WAA000	WIA Additional Assistance	17.278	200,000	200,000
	Subtotal - WIA Cluster		<u>27,913,529</u>	<u>26,091,251</u>
2813RAG000	Temporary Labor Certification for Foreign Workers 2013	17.273	1,527	-
2814RAG000	Temporary Labor Certification for Foreign Workers 2014	17.273	211	-
	Subtotal - 17.273		<u>1,738</u>	<u>-</u>
2813UCX000	Unemployment Compensation Ex-Military Resource Grant	17.280	10,170	10,170
	Subtotal - 17.280		<u>10,170</u>	<u>10,170</u>
	Total - Texas Workforce Commission		<u>30,140,541</u>	<u>28,014,722</u>
Passed Through Texas Veterans Commission				
VES 13-28	Disabled Veterans' Outreach Program	17.801	363,795	330,756
	Total - Texas Veterans Commission		<u>363,795</u>	<u>330,756</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>30,504,336</u>	<u>28,345,478</u>

HOUSTON-GALVESTON AREA COUNCIL
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
U.S. DEPARTMENT OF TRANSPORTATION				
Direct Programs:				
3-48-D301-001-2008	Reg Aviation Sys Plan	20.106	35,443	-
	Total - Direct Programs		35,443	-
Passed Through the Texas Department of Transportation				
0912-00-363	Clean Cities/Vehicles - 2008	20.205	4,451,899	4,451,899
0912-00-301	Clean Cities/Vehicles - 2006	20.205	278,961	278,961
0912-00-362	Clean Cities/Vehicles - 2011	20.205	4,940,510	4,124,832
0912-00-467	Clean Cities/Vehicles - 2013	20.205	280,869	280,869
0912-72-030	Clean Air Action - 2007	20.205	161,343	-
0912-00-357	Clean Air Action - Market	20.205	796,658	-
0912-00-459	Clean Air Action Marketing and Outreach	20.205	187,592	-
0912-00-356 TASK 1	Mobility Planning	20.205	119,445	119,445
0912-72-030	Reg Commute Alter - 2007	20.205	328,488	328,488
0912-00-320	Safety Hot Spots	20.205	85,639	-
0912-00-398	Regional Good Movement - ARRA	20.205	63,610	-
0912-00-395 TASK 1	Access Management Studies	20.205	1,212,838	-
0912-00-395 TASK 2	Subregional Planning Studies	20.205	331,017	-
0912-00-356	Subregional Planning	20.205	113,788	-
0912-00-391	Tour Based Demand Model	20.205	85,653	-
0912-00-365	Commute Solutions - Staff 2010	20.205	520,660	-
0912-72-030	Commute Solutions - Telecommuting Program	20.205	118,460	-
0912-00-498 TASK 3	Regional Rideshare Carpool - Nuride	20.205	27,020	-
0912-00-367 TASK 1	Commuter Transit Pilot Program FY10	20.205	56,555	56,555
0912-00-367 TASK 2	Commuter Solutions NuRide Program FY 10	20.205	261,895	-
50-13XF0015	Administration - 2013	20.205	1,593,165	82,338
50-13XF0015	Data Development & Maintenance - 2013	20.205	1,299,615	-
50-13XF0015	Short Range Planning - 2013	20.205	706,789	-
50-13XF0015	Long Range Plan - 2013	20.205	1,699,768	-
50-13XF0015	Special Studies - 2013	20.205	208,707	-
50-14XF0015	Administration - 2014	20.205	516,216	-
50-14XF0015	Data Development & Maintenance - 2014	20.205	440,402	-
50-14XF0015	Short Range Planning - 2014	20.205	316,824	-
50-14XF0015	Long Range Plan - 2014	20.205	444,786	-
50-14XF0015	Special Studies - 2014	20.205	62,359	-
	Subtotal - 20.205		21,711,530	9,723,387
50-13XF0015	Administration - 2013	20.505	139,740	-
50-13XF0015	Data Development & Maintenance - 2013	20.505	51,866	-
	Subtotal - 20.505		191,606	-
113-3202-50	Reg Coordinated Planning	20.515	6,335	-
583-EGF-7121	DWI Selective Traffic Enforcement-2012	20.600	52,920	52,920
584-EGF-8138	DWI Selective Traffic Enforcement-2013	20.600	37,562	37,562
	Subtotal - 20.600		90,482	90,482
	Total - Texas Department of Transportation		21,999,953	9,813,869
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION		22,035,396	9,813,869
ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs:				
2A-83440901-0	DERA Revolving Loan Program - ARRA	66.039	8,377,396	-
DE-00F42401-0	Clean Vessels for Texas Waters	66.039	(324,638)	(327,600)
	Subtotal - 66.039		8,052,758	(327,600)
	Total - Direct Programs		8,052,758	(327,600)
Passed Through the Texas Commission on Environmental Quality				
582-12-20496	Clean Water Act - 106	66.419	211,519	40,284
582-12-10088	Water Quality Management Planning - 2012	66.454	(484)	-
582-13-30047	Water Quality Management Planning - 2013	66.454	191,532	33,788
582-14-40163	Water Quality Management Planning - 2014	66.454	21,527	-
582-12-22310	GBEP - Cedar Bayou	66.454	25,506	-
	Subtotal - 66.454		238,081	33,788
582-13-31193	Trash Bash Storage	66.456	19,636	-
582-9-77098	Nonpoint Source Implementation	66.460	3,668	-
582-14-40156	Bastrop Bayou-WQMP (319H)	66.460	1,298	-
582-14-40154	319 Trash Bash Storage	66.460	19,769	-
	Subtotal - 66.460		24,735	-
	Total - Texas Commission on Environmental Quality		493,971	74,072
Passed Through the Texas State Soil and Water Conservation Board				
10-08	Watershed Protection Plan - Cedar Bayou	66.460	190,793	58,500
11-10	Surface Water Quality Monitoring - San Bernard River	66.460	112,199	31,760
	Subtotal - 66.460		302,992	90,260
	Total - Texas State Soil and Water Conservation Board		302,992	90,260

HOUSTON-GALVESTON AREA COUNCIL
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
TOTAL ENVIRONMENTAL PROTECTION AGENCY			<u>8,849,721</u>	<u>(163,268)</u>
DEPARTMENT OF ENERGY				
Direct Programs:				
DE-EE0005979	Houston Zero Emission Delivery Vehicle Deployment	81.086	42,556	32,041
DE-EE0005978	Hydrogen Fuel-Cell Electric Hybrid Truck Demonstration	81.086	529	-
DE-EE0006092	Recipe for Fueling Diversity of Alternative Fuels	81.086	<u>6,685</u>	<u>1,309</u>
	Subtotal - 81.086		<u>49,769</u>	<u>33,350</u>
TOTAL DEPARTMENT OF ENERGY			<u>49,769</u>	<u>33,350</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through the Texas Department of Aging and Disability Services				
539-11-0024-00001	Aging Title VII EAP - 2013	93.041	9,443	-
539-11-0024-00001	Aging Title VII EAP - 2014	93.041	<u>30</u>	-
	Subtotal - 93.041		9,473	-
539-11-0024-00001	Aging Title VII OAG - 2013	93.042	58,896	-
539-11-0024-00001	Aging Title VII OAG - 2014	93.042	<u>603</u>	-
	Subtotal - 93.042		59,499	-
539-11-0024-00001	Aging Title III, Part D - 2013	93.043	<u>65,230</u>	<u>65,230</u>
	Subtotal - 93.043		65,230	65,230
539-11-0024-00001	Aging Title III, Part B - 2013	93.044	1,310,902	469,169
539-11-0024-00001	Aging Title III, Part B - 2014	93.044	448,913	133,641
539-11-0024-00001	Aging Title III, Part C - 2013	93.045	1,748,283	1,748,283
539-11-0024-00001	Aging Title III, Part C - 2014	93.045	403,394	403,394
539-11-0024-00001	Aging NSIP - 2013	93.053	339,900	339,900
539-11-0024-00001	Aging NSIP - 2014	93.053	<u>58,443</u>	<u>58,443</u>
	Subtotal - Aging Cluster		4,309,835	3,152,830
539-11-0024-00001	Aging Title III, Part E - 2013	93.052	539,995	396,820
539-11-0024-00001	Aging Title III, Part E - 2014	93.052	<u>58,467</u>	<u>12,780</u>
	Subtotal 93.052		598,462	409,599
539-11-0024-00001	Aging CMS Basic (04/01/12-03/31/13)	93.779	5,872	-
539-11-0024-00001	Aging CMS Basic (04/01/13-03/31/14)	93.779	<u>95,810</u>	-
	Subtotal - 93.779		101,682	-
539-11-0024-00001	OMB-MFPD - 2013	93.791	<u>145</u>	-
	Subtotal - 93.791		145	-
	Total - Texas Department of Aging and Disability Services		<u>5,144,326</u>	<u>3,627,659</u>
Passed Through the Texas Workforce Commission				
2813TAN000	TANF Choices - 2013	93.558	11,017,505	11,011,906
2814TAN000	TANF Choices - 2014	93.558	2,467,987	2,382,151
2813NCP000	TANF E&T - Noncustodial Parent Empl - 2013	93.558	189,546	183,000
2814NCP000	TANF E&T - Noncustodial Parent Empl - 2014	93.558	131,730	122,461
2813WPA000	Employment Services - 2013	93.558	182,383	44,535
2814WPA000	Employment Services - 2014	93.558	<u>77,934</u>	<u>63,366</u>
	Subtotal - TANF Cluster		14,067,084	13,807,419
2813CCF000	Child Care CCDF - 2013	93.575	38,186,706	37,498,875
2814CCF000	Child Care CCDF - 2014	93.575	-	-
2813CAA000	CC Attendance Auto Services - 2013	93.575	644,091	644,091
2814CAA000	CC Attendance Auto Services - 2014	93.575	252,115	252,115
2814CCQ000	Child Care Quality - 2014	93.575	344,403	344,403
2812CAM000	Child Care Additional Match - 2012	93.596	1,392,420	1,392,420
2813CCF000	Child Care (BAPA) - 2013	93.596	29,071,726	29,000,000
2814CCF000	Child Care (BAPA) - 2014	93.596	14,152,977	13,739,550
2813CCM000	Child Care Local Initiatives - 2013	93.596	13,774,601	13,774,601
2814CCM000	Child Care Local Initiatives - 2014	93.596	<u>32,000</u>	<u>32,000</u>
	Subtotal - CCDF Cluster		97,851,038	96,678,054
2813CCF000	Child Care SSBG - 2013	93.667	321,014	301,125
2814CCF000	Child Care SSBG - 2014	93.667	<u>471,093</u>	<u>402,598</u>
	Subtotal - 93.667		792,107	703,723
	Total - Texas Workforce Commission		<u>112,710,230</u>	<u>111,189,197</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>117,854,556</u>	<u>114,816,856</u>

HOUSTON-GALVESTON AREA COUNCIL
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through the Texas Department of Public Safety				
2010-SS-T0-0008	Homeland Security Grant Program - SHSP SOW - 2010	97.067	147,267	-
11-GA 99012-05	Homeland Security Grant Program - SHSP SOW - 2011	97.067	91,316	-
11-SR 99012-04	Homeland Security Grant Program - Management and Administrative 2011	97.067	85,490	-
2012-SS-00018	Homeland Security Grant Program - Management and Administrative 2012	97.067	5,212	-
	Subtotal - 97.067		<u>329,285</u>	-
	Total - Texas Department of Public Safety		<u>329,285</u>	-
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		<u>329,285</u>	-
	TOTAL EXPENDITURES OF FEDERAL AWARDS - PRIMARY GOVERNMENT		<u>188,579,437</u>	<u>158,873,926</u>
DISCRETELY PRESENTED COMPONENT UNIT:				
U.S. DEPARTMENT OF COMMERCE				
Direct Programs:				
08-83-04760	Economic Development - Support for Planning Organizations	11.302	<u>86,449</u>	-
08-69-04356	Economic Adjustment Assistance - Revolving Loan Fund	11.307	<u>1,879,241</u>	-
	Total - Direct Programs		<u>1,965,690</u>	-
	TOTAL U.S. DEPARTMENT OF COMMERCE		<u>1,965,690</u>	-
	TOTAL EXPENDITURES OF FEDERAL AWARDS - DISCRETELY PRESENTED COMPONENT UNIT		<u>1,965,690</u>	-
	TOTAL EXPENDITURES OF FEDERAL AWARDS - REPORTING ENTITY		<u>190,545,127</u>	<u>158,873,926</u>
STATE PROGRAMS				
PRIMARY GOVERNMENT:				
OFFICE OF THE GOVERNOR-CRIMINAL JUSTICE DIVISION				
PS12-529	Criminal Justice Planning - 2013		152,353	-
PS13-668	Criminal Justice Planning - 2014		<u>73,858</u>	-
	Subtotal - Criminal Justice Planning		226,211	-
1471912	Law Enforcement Training - 2012		206,398	151,513
SF-14-A10-14719-13	Law Enforcement Training - 2013		<u>90,199</u>	<u>64,682</u>
	Subtotal - Law Enforcement Training		296,597	216,195
2606701	CJD Juvenile Mental Health Project 2013		108,666	-
SF-14-J20-26067-02	CJD Juvenile Mental Health Project 2014		<u>8,067</u>	-
	Subtotal - Juvenile Mental Health		<u>116,733</u>	-
	TOTAL OFFICE OF THE GOVERNOR-CRIMINAL JUSTICE DIVISION		<u>639,541</u>	<u>216,195</u>
TEXAS COMMISSION ON STATE EMERGENCY COMMUNICATIONS				
N/A	911 Emergency - 2013		1,788,349	1,788,349
N/A	911 Emergency - 2014		<u>1,453,983</u>	<u>1,453,983</u>
	TOTAL TEXAS COMMISSION ON STATE EMERGENCY COMMUNICATIONS		<u>3,242,332</u>	<u>3,242,332</u>
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY				
Direct Programs:				
582-12-10153	Solid Waste - 2011 - 13		1,350,454	858,014
582-14-40582	Solid Waste - 2013 - 15		<u>107,856</u>	-
	Subtotal - Solid Waste		1,458,311	858,014
582-11-13254 WO#2	TMDL Lake Houston - 2012		(1,502)	-
582-11-13254 WO#1	TMDL Oyster Creek - 2012		(735)	-
582-12-13254 WO#4	TMDL Public Participation Project		127,199	-
582-11-13254 WO#3	TMDL Armand Bayou		101,003	-
582-12-13254 WO# 5	TMDL BIG 2014		64,155	-
582-12-13254 WO#6	TMDL Upper Oyster Waters 2014		<u>10,920</u>	-
	Subtotal - TMDL		301,039	-
582-12-10098	Texas Clean Rivers - 2011/2013		608,722	51,055
582-14-40086	Texas Clean Rivers - 2013/2015		<u>286,136</u>	<u>23,254</u>
	Subtotal - Clean Rivers		894,858	74,309
582-13-30338	Third Party TERP		<u>78,015</u>	<u>78,015</u>
	Total - Direct Programs		<u>2,732,223</u>	<u>987,084</u>

HOUSTON-GALVESTON AREA COUNCIL
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

Grantor's ID Number	Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Total Expenditures and Indirect Costs	Pass Through
	Passed Through Harris County			
582-12-20273	Air Check Texas - 2013		2,721,623	2,231,328
582-12-20273	Air Check Texas - 2014		668,855	523,187
	Total - Air Check Texas - Harris County		3,390,477	2,754,515
	Passed Through Fort Bend County			
582-12-20281	Air Check Texas - 2013		115,173	77,409
582-12-20273	Air Check Texas - 2014		41,447	30,922
	Total - Air Check Texas - Fort Bend County		156,619	108,332
	Passed Through Brazoria County			
582-12-20280	Air Check Texas - 2013		89,864	74,413
582-12-20273	Air Check Texas - 2014		26,341	20,064
	Total - Air Check Texas - Brazoria County		116,205	94,478
	Passed Through Galveston County			
582-12-20283	Air Check Texas - 2013		170,302	137,411
582-12-20273	Air Check Texas - 2014		37,625	35,447
	Total - Air Check Texas - Galveston County		207,927	172,858
	Passed Through Montgomery County			
582-12-20282	Air Check Texas - 2013		132,979	95,615
582-12-20273	Air Check Texas - 2014		64,286	42,114
	Total - Air Check Texas - Montgomery County		197,264	137,730
	TOTAL TEXAS COMMISSION ON ENVIRONMENTAL QUALITY		6,800,716	4,254,997
	TEXAS DEPARTMENT OF AGING AND DISABILITY SERVICES			
539-08-0170-00001	State General Revenue - 2013		295,395	295,395
539-08-0170-00001	State General Revenue - 2014		161,415	161,415
	TOTAL TEXAS DEPARTMENT OF AGING AND DISABILITY SERVICES		456,810	456,810
	TEXAS WORKFORCE COMMISSION			
2812BTW000	Texas Back-to-Work Initiative		21,028	3,044
	Subtotal - Texas Back-to-Work Initiative		21,028	3,044
2813SNE001	SNAP E&T - 2013		497,762	358,590
2814SNE000	SNAP E&T - 2014		8,917	8,917
2814SNE001	SNAP E&T - 2014		523,635	448,165
	Subtotal - SNAP E&T		1,030,315	815,671
2813RAG000	Resource Administration Grant - 2013		(3,562)	-
2814RAG000	Resource Administration Grant - 2014		588	-
	Subtotal - Resource Administration Grant		(2,974)	-
2813TAN000	TANF Choices - 2013		862,353	337,429
2813NCP000	TANF E&T - Noncustodial Parent Empl - 2013		600,000	540,386
	Subtotal -TANF Choices		1,462,353	877,815
2813CCP000	Child Care DFPS - 2013		7,480,162	7,455,457
2814CCP000	Child Care DFPS - 2014		3,589,943	3,582,665
	Subtotal - Child Care DFPS		11,070,106	11,038,122
2813CCF000	CCDF Child Care - 2013		8,161,770	8,140,740
2813CCM000	Child Care Local Initiatives - 2013		100,000	100,000
2814CCF000	CCDF Child Care - 2014		12,979,126	12,920,300
	Subtotal - Child Care		21,240,896	21,161,040
	TOTAL TEXAS WORKFORCE COMMISSION		34,821,723	33,895,693
	TOTAL EXPENDITURES OF STATE AWARDS - PRIMARY GOVERNMENT		45,961,121	42,066,026
	TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS - REPORTING ENTITY		\$ 236,506,249	\$ 200,939,951

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HOUSTON-GALVESTON AREA COUNCIL

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

1 BASIS OF ACCOUNTING

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

2 REPORTING ENTITY

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

3 RECONCILIATION

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

Total Grant Fund Expenditures	\$ 241,350,534
Add: Depreciation charged to grant programs	282,751
Add: Gulf Coast Economic Development Corporation federal expenditures	1,965,690
Add: EPA RLF reconciling items from notes 5 below (\$2,652,804;\$4,219,550;\$1,432,252)	8,304,606
Less: In-Kind Expenditures	(14,334,766)
Less: Program Income	(38,830)
Less: Cash Match	(225,974)
Less: Expenditures funded by local grant revenues	(797,758)
Total Federal and State Schedule	<u>\$ 236,506,253</u>

4 CALCULATION OF FEDERAL AWARDS EXPENDED FOR EDA REVOLVING LOAN FUND

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

Balance of RLF loans outstanding at 12/31/2013	\$ 1,099,694
Cash and investment balance at 12/31/2013	766,481
Administrative costs during the fiscal year	13,066
Unpaid principal of loans written off during the fiscal year	-
Total EDA Revolving Loan Fund Expenditures	<u>1,879,241</u>
Federal Participation Rate	100%
Total Federal Share of EDA Revolving Loan Fund Expenditures	<u>\$ 1,879,241</u>

5 CALCULATION OF FEDERAL AWARDS EXPENDED FOR EPA REVOLVING LOAN FUND

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

Value of new loans made during 2013	\$ 2,652,804
Ending balance of loans made in previous years	4,219,550
Administrative costs during the fiscal year	72,790
Cash and investment balance at 12/31/2013	1,432,252
Total EPA Revolving Loan Fund Expenditures	<u>8,377,396</u>
Federal Participation Rate	100%
Total Federal Share of EPA Revolving Loan Fund Expenditures	<u>\$ 8,377,396</u>

6 FEDERAL PROGRAM TOTALS

Some programs include awards received from multiple federal funding grantors

Texas Department of Agriculture	\$ 13,083
General Land Office	4,424,855
Total CFDA #14.228	<u>\$ 4,437,938</u>
Texas Workforce Commission	\$ 1,148,113
Texas Veterans Commission	363,795
Total Employment Service Cluster	<u>\$ 1,511,908</u>
Texas Commission on Environmental Quality	\$ 24,735
Texas State Soil and Water Conservation Board	302,992
Total CFDA #66.460	<u>\$ 327,727</u>

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Houston-Galveston Area Council
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2013

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

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
Federal Major Programs:	
Sustainable Communities Regional Planning Grant Program	14.703
National Clean Diesel Funding Assistance Program (ARRA)	66.039
Aging Cluster:	
Special Programs for the Aging- Title III, Part B- Grants for Supportive Services and Senior Centers	93.044
Special Programs for the Aging-Title III, Part C – Nutrition Services	93.045
Nutrition Services Incentive Program	93.053
Highway Planning and Construction	20.205
National Family Caregiver Support, Title III, Part E	93.052
CCDF Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$3,000,000
2. Federal Single Audit - Auditee qualified as low-risk auditee?	Yes

Houston-Galveston Area Council
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended December 31, 2013

I. Summary of Auditors' Results (continued)	
State Awards:	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) UGMS?	None
Identification of major programs:	
Name of State Program or Cluster	CFDA Number
Major State Programs: Law Enforcement Training Total Maximum Daily Load (TMDL) Texas Clean Rivers State General Revenue – Aging and Disability CCDF Child Care/Child Care DFPS	N/A N/A N/A N/A N/A
1. Dollar Threshold Considered Between Type A and Type B Programs	\$395,799
2. State Single Audit - Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

There were no current year findings.

III. Federal and State Award Findings and Questioned Costs.

There were no current year findings or questioned costs.

IV. Status of Prior Year Findings

There were no findings in the prior year.

V. Corrective Action

Not applicable.