

**THE BOARD OF TRUSTEES OF
THE GALVESTON WHARVES**

FEDERAL SINGLE AUDIT REPORT

Year Ended December 31, 2013

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
FEDERAL SINGLE AUDIT REPORT
TABLE OF CONTENTS

	<u>Page</u>
Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	1
Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by <i>OMB Circular A-133</i>	3
Schedule of Expenditures of Federal Awards	5
Notes on Accounting Policies for Federal Awards	6
Schedule of Findings and Questioned Costs	7

**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 Trustees
of the Galveston Wharves
Galveston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Board of Trustees of the Galveston Wharves (the “Wharves”) as of and for the year ended December 31, 2013, and the related notes to the financial statements which collectively comprise the Wharves’ basic financial statements and have issued our report thereon dated March 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Wharves’ 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 Wharves’ internal control. Accordingly, we do not express an opinion on the effectiveness of The Wharves’ internal control.

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

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

To the Board of Trustees
of the Galveston Wharves
Galveston, Texas

Compliance and Other Matters

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

Purpose of this Report

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

Whitley Penn LLP

March 31, 2014

**Report on Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance;
and Report on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

To the Board of Trustees
of the Galveston Wharves
Galveston, Texas

Report on Compliance for Each Major Federal Program

We have audited The Board of Trustees of the Galveston Wharves (the “Wharves”) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Wharves’ major federal programs for the year ended December 31, 2013. The Wharves’ major federal 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 programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of The Wharves’ 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 Wharves’ 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 program. However, our audit does not provide a legal determination of the Wharves’ compliance.

Opinion on Each Major Federal Program

In our opinion, The Wharves 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 programs for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of The Wharves 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 Wharves’ internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to

To the Board of Trustees
of the Galveston Wharves
Galveston, Texas

determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Wharves' 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 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 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 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. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards Required
by OMB Circular A-133***

We have audited the financial statements of The Wharves as of and for the year ended December 31, 2013, and have issued our report thereon dated March 31, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Whitley Penn LLP

March 31, 2014

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2013

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Expenditures
U.S. Department of Homeland Security			
Direct Program			
Port Security Grant Program	97.056		\$ 18,248
Total U.S. Department of Homeland Security - Direct			<u>18,248</u>
Passed through Governor's Division of Emergency Management			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	329EM/1791DR	3,527,092
Advanced Funded FEMA Project	97.036		<u>102,292</u>
Total Passed through Governor's Division of Emergency Management			<u>3,629,384</u>
Passed through Harris County, Texas			
Port Security Grant Program	97.056	2008-PU-T8-K006	1,347,660
Port Security Grant Program	97.056	2010 PU-T0-K002	622,744
Port Security Grant Program	97.056	EMW-2011-PU-K00146-S01	<u>233,386</u>
Total Passed through Harris County, Texas			<u>2,203,790</u>
Total U.S. Department of Homeland Security			<u>5,851,422</u>
U.S. Department of Commerce Economic Development Administration			
Economic Adjustment Assistance	11.307	EDA 08-79-04377	<u>3,343,509</u>
Total U.S. Department of Economic Development (EDA)			<u>3,343,509</u>
U.S. Department of Justice			
Bulletproof Vest Partnership Program	16.607		<u>10,250</u>
Total U.S. Department of Justice			<u>10,250</u>
U. S. Department of Energy			
Renewable Energy Research and Development	81.087	DE-EE0003177	<u>87,762</u>
Total U.S. Department of Energy			<u>87,762</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 9,292,943</u></u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

The Wharves account for federal funding using the modified accrual method of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences, claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Equipment purchases for grant purposes are treated as expenses in the schedule of expenditures of federal awards and typically capitalized for financial statement purposes.

Federal grant funds are considered to be earned to the extent of expenses made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

NOTE 2 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of the Wharves under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Wharves, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Wharves.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

a. Material weakness(es) identified? No

b. Significant deficiency(ies) identified that are not
considered to be material weakness(es)? No

Noncompliance material to the financial statements
noted? None

FEDERAL AWARDS

Internal control over major programs:

a. Material weakness(es) identified? No

b. Significant deficiency(ies) identified that are not
considered to be material weakness(es)? No

Type of auditors' report issued on compliance for major
programs: Unmodified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of OMB
Circular A-133? No

Identification of major programs: Name of Federal Program or Cluster

CFDA Number(s)

97.056 Port Security Grant Program

11.307 Economic Adjustment Assistance

Dollar threshold used to distinguish between type A and
type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended December 31, 2013

SECTION II. - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III. - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV. - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

No prior year findings