

**REGION ONE
EDUCATION SERVICE CENTER**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2018**

REGION ONE EDUCATION SERVICE CENTER
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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CERTIFICATE OF BOARD

Region One Education Service Center
Name of Service Center

Hidalgo
County

108-950
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named service center were reviewed and (check one) approved _____ disapproved for the year ended August 31, 2018 at a meeting of the Board of Directors of such service center on the 18th day of December 2018.


Signature of Board Secretary


Signature of Board President



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

Independent Auditors' Report

Board of Trustees
Region One Education Service Center

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Region One Education Service Center, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Region One Education Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Region One Education Service Center's 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.

Auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Region One Education Service Center, as of August 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, in fiscal year 2018 Region One Education Service Center adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and pension and OPEB information on pages 5-10 and 49-54 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 Region One Education Service Center's basic financial statements. The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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 combining, required TEA schedules and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018 on our consideration of the Region One Education Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Region One Education Service Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Region One Education Service Center's internal control over financial reporting and compliance.



Brownsville, Texas
December 18, 2018



Region One Education Service Center

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MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Region One Education Service Center’s annual financial report presents our discussion and analysis of the Center’s financial performance during the fiscal year ended August 31, 2018. Please read it in conjunction with the Center’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

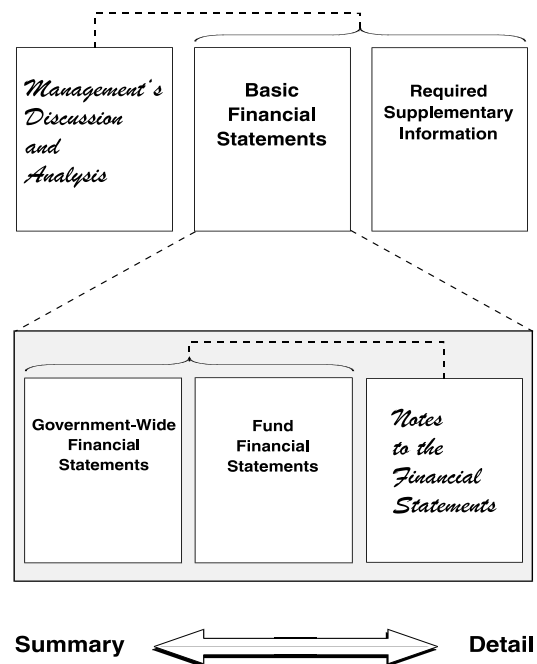
- The Center’s total combined net assets were \$39,234,774 at August 31, 2018, which reflects a decrease of 2.78% between fiscal years 8/31/17 and 8/31/18.
- During the year, the Center’s expenses were \$821,428 less than the \$51,139,661 generated in local charges and other revenues for governmental activities. This is more than last year, when revenues exceeded expenses by \$1,085,542.
- The general fund reported an excess of revenues over expenditures this year of \$1,694,902. Transfers from the general fund to the construction and proprietary funds totaled \$1,100,000. The net increase to the general fund was \$594,902 with an ending balance of \$13,931,622.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the Center:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Center’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the Center’s operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as food service.
- *Fiduciary fund* statements provide information about the financial relationships in which the Center acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1F, Required Components of the Center’s Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required Parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the Center’s financial statements, including the portion of the Center government they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the Center’s Government-wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency’s government (except fiduciary funds) and the Agency’s component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else’s resources
Required financial statements	<ul style="list-style-type: none"> * Statement of net assets * Statement of activities 	<ul style="list-style-type: none"> * Balance sheet * Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> * Statement of net assets * Statement of revenues, expenses and changes in fund net assets * Statement of cash flows 	<ul style="list-style-type: none"> * Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the Center as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Center’s net assets and how they have changed. Net assets—the difference between the Center’s assets and liabilities—is one way to measure the Center’s financial health or *position*.

- Over time, increases or decreases in the Center’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the Center include the *Governmental activities*. Most of the Center’s basic services are included here, such as instruction, curriculum and staff development, school district administrative support services and general administration. Grants and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Center’s most significant *funds*—not the Center as a whole. Funds are accounting devices that the Center uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Board of Directors establishes other funds to control and manage money for particular purposes or to show that the Center is properly using certain grants and local sources.

The Center has the following kinds of funds:

- *Governmental funds*—Most of the Center’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Center’s programs. Because this information does not

encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the Center charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the Center’s other programs and activities.
- *Fiduciary funds*—The Center is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The Center is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Center’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the Center’s government-wide financial statements because the Center cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CENTER AS A WHOLE

Net assets. The Center’s combined net assets decreased by 77.01%, to approximately \$6,939,933 between the fiscal years 2017 and 2018 (See Table A-1).

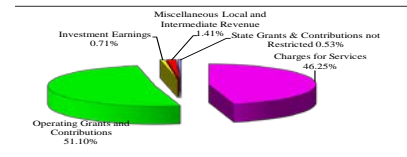
Table A-1
Region One Education Service Center's Net Assets

	Governmental Activities		Total
	2017	2018	% Change
Current Assets:			
Cash and cash equivalents	\$ 426,127	\$ 1,237,357	190.37%
Current investments	19,901,792	20,030,386	0.65%
Due from other governments	7,360,892	5,311,474	-27.84%
Other receivables	139,788	443,917	217.56%
Prepayments	-	-	-
Inventories-supplies	5,121	30,575	497.05%
Other current assets	404	404	0.00%
Total Current Assets	<u>27,834,124</u>	<u>27,054,113</u>	-2.80%
Noncurrent Assets:			
Land	110,473	110,473	0.00%
Building	21,144,335	21,144,335	0.00%
Leased property under capital leases	-	-	-
Furniture and equipment	2,241,604	2,204,220	-1.67%
Library books and media	1,395,644	1,395,644	0.00%
Construction in Progress	-	417,487	-
Less: Accumulated depreciation	<u>(12,368,000)</u>	<u>(13,091,497)</u>	5.85%
Total Noncurrent Assets	<u>12,524,056</u>	<u>12,180,662</u>	-2.74%
Total Assets	<u>40,358,180</u>	<u>39,234,775</u>	-2.78%
Deferred Outflows of Resources			
Deferred Outflow Related to TRS Pension	4,208,418	3,554,434	-15.54%
Deferred Outflow Related to TRS OPEB	-	285,552	-
Total Deferred Outflows of Resources	<u>4,208,418</u>	<u>3,839,986</u>	-8.75%
Liabilities:			
Accounts payable and accrued liabilities	1,342,937	562,390	-58.12%
Payroll deductions & withholdings	223,835	167,088	-25.35%
Accrued Wages Payable	134,473	187,936	39.76%
Due to other governments	2,437,375	1,409,368	-42.18%
Unearned Revenue	335,867	68,325	-79.66%
Due Within One Year	78,351	-	-100.00%
Due in More Than One Year	-	-	-
Net Pension Liability (District's Share)	9,294,223	8,304,060	-10.65%
Net OPEB Liability (District's Share)	-	17,038,393	-
Total Liabilities	<u>13,847,061</u>	<u>27,737,560</u>	100.31%
Deferred Inflows of Resources			
Deferred Inflow Related to TRS Pension	535,838	1,270,075	137.03%
Deferred Inflow Related to TRS OPEB	-	7,127,191	-
Total Deferred Inflows of Resources	<u>535,838</u>	<u>8,397,266</u>	1467.13%
Net Assets:			
Invested in capital assets, net of related debt	12,484,881	12,180,661	-2.44%
Restricted for federal and state program	3,018	508,543	0.00%
Restricted for capital projects	4,234,324	5,319,716	25.63%
Restricted for other purposes	7,687,297	7,820,130	1.73%
Unrestricted net assets	<u>5,774,179</u>	<u>(18,889,117)</u>	-427.13%
Total Net Assets	<u>\$ 30,183,699</u>	<u>\$ 6,939,933</u>	-77.01%

(1) Unrestricted net assets showed a \$18.9 million deficit at the end of this year as a result of the implementation of GASB Statement No 75. This deficit represents a decrease of 427.13% from the prior year.

Changes in net assets. The Center’s total revenues decreased by 5.27% to \$46,008,085. A significant portion, 51.10%, of the Center’s revenue comes from operating grants (See Figure A-3.), while 46.25% relates to charges for services.

The total cost of all programs and services decreased 17.93% to \$39,478,084. The instruction and instructional related services and student services functions represent 61% of these costs.



Governmental Activities

- Investment earnings increased by approximately 137.96% due to an increase in the interest rate. Charges for services increased by 3.37% from \$20,585,703 to \$21,279,152 due to increase in growth in the substitute service program.
- Grants not restricted represent revenues for indirect cost, foundation funds and other grants not restricted. These funds decreased by 89.47% from \$2,305,226 to \$242,671. The state aid – formula grants represent state funds received for Center operations. State revenues were adjusted by the required GASB 68 and GASB 75 journal entries.
- Operating grants and contributions represent federal and state funds restricted for a specific program. The Center obtained approximately \$1,781,474 less federal and state grants as compared to last year. The decrease in operating grants and contributions of 7.04% is due a decrease in grant allocations, primarily in the GEAR Up Program. Over all, funds received for center operations decreased by 5.27%.

Table A-2
Changes in Region One Education Service Center's Net Assets

	<u>Governmental Activities</u>		<u>Total</u>
	<u>2017</u>	<u>2018</u>	<u>% Change</u>
Program Revenues:			
Charges for services	\$ 20,585,703	\$ 21,279,152	3.37%
Operating grants and contributions	25,289,725	23,508,251	-7.04%
Grants and contributions not restricted	2,305,226	242,671	-89.47%
Investment earnings	137,213	326,510	137.96%
State aid - formula grants	250,012	-	-100.00%
Miscellaneous local and intermediate revenue	-	651,501	
Total Revenues	<u>48,567,879</u>	<u>46,008,085</u>	-5.27%
Program Expenses:			
Instruction	15,130,582	12,179,010	-19.51%
Instructional resources media services	1,330,975	1,267,076	-4.80%
Curriculum dev. and instructional staff dev.	12,425,349	10,707,929	-13.82%
Instructional leadership	2,330,020	1,901,139	-18.41%
School leadership	779,636	553,123	-29.05%
Guidance, counseling, and evaluation services	7,843	9,101	16.04%
Student (pupil)	156	-	-100.00%
General administration	2,492,136	1,845,684	-25.94%
Plant and maintenance	1,559,604	1,473,353	-5.53%
Security and monitoring	33,072	-	-100.00%
Data processing services	3,722,047	2,858,411	-23.20%
Community services	305,924	337,558	10.34%
School district administrative support	4,622,009	3,667,255	-20.66%

	<u>2017</u>	<u>2018</u>	
Debt service	-	-	
Capital Outlay	62,112	-	100.00%
Payments to fiscal agent/member dist.-SSA	<u>3,298,739</u>	<u>2,678,445</u>	-18.80%
Total Expenditures	<u>48,100,203</u>	<u>39,478,084</u>	-17.93%
Increase (Decrease) in Net Assets	\$ <u>467,676</u>	\$ <u>6,530,001</u>	1296.27%

Table A-3 presents the cost of each of the Center's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local revenues.

- The cost of all *governmental* activities decreased by 17.93% this year ending at \$39,478,084. Some of the cost was paid by those who directly benefited from the programs \$21,279,152 or by grants and contributions totaling \$23,508,251.

	<u>Total Cost of Services</u>		Total
	<u>2017</u>	<u>2018</u>	<u>% Change</u>
Instruction	\$15,130,582	\$12,179,010	-19.51%
Instructional Resources and Media Services	1,330,975	1,267,076	-4.80%
Curriculum Dev. And Instructional Staff Dev.	12,425,349	10,707,929	-13.82%
Instructional Leadership	2,330,020	1,901,139	-18.41%
General Administration	2,492,136	1,845,684	-25.94%
Plant Maintenance & Operations	1,559,604	1,473,353	-5.53%
Data Processing Services	3,722,047	2,858,411	-23.20%
School District Administration Support (ESC only)	4,622,009	3,667,255	-20.66%
Payments Related to Shared Services Arrangements	3,298,739	2,678,445	-18.80%

FINANCIAL ANALYSIS OF THE CENTER'S FUNDS

Revenues from governmental fund types totaled \$51,139,661, an increase of 5.62% over the preceding year. The increase in local revenues is primarily a result of an increase in revenues in substitute service program. The decrease in operating grants and contributions of 7.04% is due a decrease in grant allocations, primarily in the GEAR Up Program. Expenditures from governmental fund types totaled \$50,318,233 an increase of 6.31% over the preceding year. The increase in the Instruction function of almost \$2 million is mainly due to an increase in the SUBHUB program, Project HEAL2, and Early Childhood Intervention.

General Fund Budgetary Highlights

Over the course of the year, the Center revised and the Board of Directors approved the budget on a monthly basis. Actual expenditures were \$2,345,187 below final budget amounts. Some local programs expended less than appropriations. On the other hand, resources available were \$179,127 under the final budgeted amount.

CAPITAL ASSETS

At the end of 2018, the Center had invested \$25,272,159 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents an increase of \$380,103 or 1.53% over last year. The center disposed of equipment through auction and other allowable methods.

**Table A-4
Center's Capital Assets**

	Governmental Activities		Total
	<u>2017</u>	<u>2018</u>	<u>% Change</u>
Land	\$ 110,473	\$ 110,473	0.00%
Buildings and improvements	21,144,335	21,144,335	0.00%
Capital leases	-	-	-
Equipment	2,241,604	2,204,220	-1.67%
Library books & media	1,395,644	1,395,644	
Construction in Progress	-	417,487	-
Totals at historic cost	<u>24,892,056</u>	<u>25,272,159</u>	1.53%
Total accumulated depreciation	<u>(12,368,000)</u>	<u>(13,091,498)</u>	5.85%
Net capital assets	<u>\$ 12,524,056</u>	<u>\$ 12,180,661</u>	-2.74%

The Center's fiscal year 2017-18 capital budget projects has earmarked for construction an additional \$1,000,000 from the General Fund; principally for the renovations of the Laredo satellite office and for improvements to the Edinburg building. More detailed information about the Center's capital assets is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Texas Education Agency appropriated the same of state base funds and approximately the same federal funds to the Center for 2018-2019.

These indicators were taken into account when adopting the general fund budget for 2019. Amounts available for appropriation in the general fund budget are \$25,206,418 a decrease of 2.17% under the final 2018 budget of \$25,765,846. The original budget for 2018-19 represents very conservative figures.

Expenditures are budgeted to decrease by 4.19% to \$25,137,512. The decrease is also due to budgeting very conservative amounts. If these estimates are realized, the Center's budgetary general fund balance is not expected to change appreciably by the close of 2019.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the Center's finances and to demonstrate the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Center's Business Services Department at (956) 984-6290.

BASIC FINANCIAL STATEMENTS

REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,237,357
1120 Current Investments	20,030,386
1240 Due from Other Governments	5,311,474
1290 Other Receivables, Net	443,917
1300 Inventories	30,575
1490 Other Current Assets	404
Capital Assets:	
1510 Land	110,473
1520 Buildings, Net	9,879,613
1530 Furniture and Equipment, Net	377,444
1560 Library Books and Media, Net	1,395,644
1580 Construction in Progress	417,487
1000 Total Assets	39,234,774
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	3,554,434
1706 Deferred Outflow Related to TRS OPEB	285,552
1700 Total Deferred Outflows of Resources	3,839,986
LIABILITIES	
2110 Accounts Payable	562,390
2150 Payroll Deductions and Withholdings	167,088
2160 Accrued Wages Payable	187,936
2180 Due to Other Governments	1,409,368
2300 Unearned Revenue	68,325
Noncurrent Liabilities:	
2540 Net Pension Liability (District's Share)	8,304,060
2545 Net OPEB Liability (District's Share)	17,038,393
2000 Total Liabilities	27,737,560
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Resource Inflow Related to TRS Pension	1,270,075
2606 Deferred Resource Inflow Related to TRS OPEB	7,127,191
2600 Total Deferred Inflows of Resources	8,397,266
NET POSITION	
3200 Net Investment in Capital Assets	12,180,661
3820 Restricted for Federal and State Programs	508,543
3860 Restricted for Capital Projects	5,319,716
3890 Restricted for Other Purposes	7,820,130
3900 Unrestricted	(18,889,117)
3000 Total Net Position	\$ 6,939,933

The notes to the financial statements are an integral part of this statement.

REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 12,179,010	\$ 6,742,548	\$ 7,782,739	\$ 2,346,277
12 Instructional Resources and Media Services	1,267,076	1,187,315	-	(79,761)
13 Curriculum and Instructional Staff Development	10,707,929	4,547,367	7,177,994	1,017,432
21 Instructional Leadership	1,901,139	467,925	1,869,422	436,208
23 School Leadership	553,123	-	715,072	161,949
31 Guidance, Counseling and Evaluation Services	9,101	-	8,928	(173)
41 General Administration	1,845,684	2,374,630	-	528,946
51 Facilities Maintenance and Operations	1,473,353	937,749	768,360	232,756
53 Data Processing Services	2,858,411	2,449,103	480,921	71,613
61 Community Services	337,558	-	349,789	12,231
62 School District Administrative Support (ESC)	3,667,255	2,572,515	1,676,581	581,841
93 Payments Related to Shared Services Arrangements	2,678,445	-	2,678,445	-
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 39,478,084</u>	<u>\$ 21,279,152</u>	<u>\$ 23,508,251</u>	<u>5,309,319</u>
Data Control Codes				
	General Revenues:			
	Taxes:			
GC	Grants and Contributions not Restricted			242,671
IE	Investment Earnings			326,510
MI	Miscellaneous Local and Intermediate Revenue			651,501
TR	Total General Revenues			<u>1,220,682</u>
CN	Change in Net Position			6,530,001
NB	Net Position - Beginning			30,183,699
PA	Prior Period Adjustment			(29,773,767)
NE	Net Position--Ending			<u>\$ 6,939,933</u>

The notes to the financial statements are an integral part of this statement.

REGION ONE EDUCATION SERVICE CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	IDEA- Part B	Gear Up
ASSETS			
1110 Cash and Cash Equivalents	\$ 51,239	\$ -	\$ -
1120 Investments - Current	10,520,386	-	-
1240 Due from Other Governments	552,730	573,479	978,020
1260 Due from Other Funds	3,627,652	-	-
1290 Other Receivables	234,409	-	-
1000 Total Assets	<u>\$ 14,986,416</u>	<u>\$ 573,479</u>	<u>\$ 978,020</u>
LIABILITIES			
2110 Accounts Payable	\$ 115,006	\$ 23,689	\$ 59,649
2150 Payroll Deductions and Withholdings Payable	167,088	-	-
2160 Accrued Wages Payable	134,674	-	-
2170 Due to Other Funds	486,213	506,471	447,036
2180 Due to Other Governments	151,813	43,319	471,335
2300 Unearned Revenue	-	-	-
2000 Total Liabilities	<u>1,054,794</u>	<u>573,479</u>	<u>978,020</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3490 Other Restricted Fund Balance	1,178,330	-	-
Committed Fund Balance:			
3510 Construction	1,000,000	-	-
3545 Other Committed Fund Balance	6,641,800	-	-
3600 Unassigned Fund Balance	5,111,492	-	-
3000 Total Fund Balances	<u>13,931,622</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 14,986,416</u>	<u>\$ 573,479</u>	<u>\$ 978,020</u>

The notes to the financial statements are an integral part of this statement.

Project Rise	Early Childhood Intervention	60 Capital Projects	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ 619,716	\$ 520,771	\$ 1,191,726
-	-	3,700,000	-	14,220,386
964,712	706,122	-	1,519,891	5,294,954
-	-	-	-	3,627,652
-	-	-	46,017	280,426
<u>\$ 964,712</u>	<u>\$ 706,122</u>	<u>\$ 4,319,716</u>	<u>\$ 2,086,679</u>	<u>\$ 24,615,144</u>
\$ 57,496	\$ 83,091	\$ -	\$ 63,100	\$ 402,031
-	-	-	-	167,088
-	-	-	53,262	187,936
633,496	498,406	-	1,076,280	3,647,902
273,720	124,625	-	317,169	1,381,981
-	-	-	68,325	68,325
<u>964,712</u>	<u>706,122</u>	<u>-</u>	<u>1,578,136</u>	<u>5,855,263</u>
-	-	-	508,543	508,543
-	-	-	-	1,178,330
-	-	4,319,716	-	5,319,716
-	-	-	-	6,641,800
-	-	-	-	5,111,492
<u>-</u>	<u>-</u>	<u>4,319,716</u>	<u>508,543</u>	<u>18,759,881</u>
<u>\$ 964,712</u>	<u>\$ 706,122</u>	<u>\$ 4,319,716</u>	<u>\$ 2,086,679</u>	<u>\$ 24,615,144</u>

REGION ONE EDUCATION SERVICE CENTER
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 AUGUST 31, 2018

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	18,759,881
1 The Center uses internal service funds to charge the costs of certain activities, such as computer operations and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		6,062,395
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$24,202,835 and the accumulated depreciation was (\$11,842,051). In addition the total of long-term liabilities, including capital leases payable, and net pension liability are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt of \$78,350 in the governmental activities is to increase net position.		12,282,434
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$3,554,434, a deferred resource inflow in the amount of \$1,270,075, and a net pension liability in the amount of \$8,304,060.		(6,019,701)
4 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increase in capital assets and reductions long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to decrease net position.		645,252
5 The District implemented GASB 75 reporting requirements for the OPEB benefit plan through TRS. Since this is the first year of implementation, a prior year adjustment was recorded in the amount of \$29,773,767. The District's share of the TRS plan resulted in a net OPEB liability of (\$17,038,393), a deferred outflow of \$285,552 and a deferred inflow of (\$7,127,191). This resulted in a difference between the ending fund balance and the ending net position.		(23,880,032)
6 The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(910,296)
19 Net Position of Governmental Activities	\$	6,939,933

The notes to the financial statements are an integral part of this statement.

REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	IDEA- Part B	Gear Up
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 21,605,662	\$ -	\$ -
5800 State Program Revenues	2,840,433	-	-
5900 Federal Program Revenues	1,140,624	2,828,475	4,043,007
5020 Total Revenues	<u>25,586,719</u>	<u>2,828,475</u>	<u>4,043,007</u>
EXPENDITURES:			
Current:			
0011 Instruction	8,028,612	16,613	1,237,667
0012 Instructional Resources and Media Services	1,290,120	-	-
0013 Curriculum and Instructional Staff Development	4,701,639	2,377,368	1,578,476
0021 Instructional Leadership	589,820	150,610	124,396
0023 School Leadership	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	8,928	-
0041 General Administration	2,404,552	-	-
0051 Facilities Maintenance and Operations	862,741	122,219	69,831
0053 Data Processing Services	2,922,330	86,052	27,302
0061 Community Services	18,934	-	111,175
0062 School District Administrative Support (ESC Only)	3,033,893	66,685	-
Debt Service:			
0071 Principal on Long-Term Debt	39,176	-	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	894,160
6030 Total Expenditures	<u>23,891,817</u>	<u>2,828,475</u>	<u>4,043,007</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,694,902</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	(1,100,000)	-	-
7080 Total Other Financing Sources (Uses)	<u>(1,100,000)</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	594,902	-	-
0100 Fund Balance - September 1 (Beginning)	<u>13,336,720</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 13,931,622</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Project Rise	Early Childhood Intervention	60 Capital Projects	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 651,501	\$ 22,257,163
-	484,164	-	909,026	4,233,623
3,822,816	5,246,133	-	7,567,820	24,648,875
3,822,816	5,730,297	-	9,128,347	51,139,661
-	4,456,678	-	3,044,297	16,783,867
-	-	-	-	1,290,120
1,745,925	16,784	-	2,399,593	12,819,785
370,255	958,063	-	499,305	2,692,449
-	-	-	807,432	807,432
-	-	-	-	8,928
-	-	-	-	2,404,552
61,175	163,692	-	528,025	1,807,683
22,950	135,080	-	262,542	3,456,256
-	-	-	251,298	381,407
-	-	-	1,630,068	4,730,646
-	-	-	-	39,176
-	-	417,487	-	417,487
1,622,511	-	-	161,774	2,678,445
3,822,816	5,730,297	417,487	9,584,334	50,318,233
-	-	(417,487)	(455,987)	821,428
-	-	1,000,000	142,018	1,142,018
-	-	-	(142,018)	(1,242,018)
-	-	1,000,000	-	(100,000)
-	-	582,513	(455,987)	721,428
-	-	3,737,203	964,530	18,038,453
\$ -	\$ -	\$ 4,319,716	\$ 508,543	\$ 18,759,881

REGION ONE EDUCATION SERVICE CENTER
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	721,428
The Center uses internal service funds to charge the costs of certain activities, such as computer operations and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.		557,974
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays and debt principal payments is to decrease net position.		39,176
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(910,296)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		626,042
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending position to increase by \$938,478. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$851,178. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$485,358. The net result is an increase or a (decrease) in the change in position.		(398,058)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending position to increase by \$282,885. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$306,654. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net position expense decreased the change in net position by (\$5,917,504). The net result as an increase (decrease) in the change in net position.		5,893,735
Change in Net Position of Governmental Activities	\$	6,530,001

The notes to the financial statements are an integral part of this statement.

REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2018

EXHIBIT D-1

	Governmental Activities -
	Total Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 45,631
Investments - Current	5,810,000
Due from Other Governments	16,520
Due from Other Funds	20,249
Other Receivables	163,491
Inventories	30,575
Other Current Assets	404
Total Current Assets	6,086,870
Noncurrent Assets:	
Capital Assets:	
Buildings and Improvements	85,813
Furniture and Equipment	603,407
Depreciation on Furniture and Equipment	(525,949)
Total Noncurrent Assets	163,271
Total Assets	6,250,141
LIABILITIES	
Current Liabilities:	
Accounts Payable	160,359
Due to Other Governments	27,387
Total Liabilities	187,746
NET POSITION	
Unrestricted Net Position	6,062,395
Total Net Position	\$ 6,062,395

The notes to the financial statements are an integral part of this statement.

REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	Governmental Activities -
	Total Internal Service Funds
<hr/>	
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 3,633,584
Total Operating Revenues	<u>3,633,584</u>
OPERATING EXPENSES:	
Payroll Costs	939,558
Professional and Contracted Services	1,928,889
Supplies and Materials	131,663
Other Operating Costs	116,360
Depreciation Expense	59,140
Total Operating Expenses	<u>3,175,610</u>
Income Before Transfers	457,974
Transfer In	<u>100,000</u>
Change in Net Position	557,974
Total Net Position - September 1 (Beginning)	<u>5,504,421</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 6,062,395</u></u>

The notes to the financial statements are an integral part of this statement.

REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 3,633,383
Cash Payments to Employees for Services	(939,558)
Cash Payments for Professional Services	(1,928,889)
Cash Payments for Suppliers	(106,209)
Cash Payments for Other Operating Expenses	(77,185)
Net Cash Provided by Operating Activities	<u>581,542</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer In	<u>100,000</u>
Net Increase in Cash and Cash Equivalents	681,542
Cash and Cash Equivalents at Beginning of Year	<u>5,174,089</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,855,631</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	\$ 457,974
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	59,140
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(162,691)
Decrease (increase) in Inventories	(25,454)
Decrease (increase) in Due from Other Governments	361,622
Decrease (Increase) in Due from Other Funds	60,257
Increase (decrease) in Accounts Payable	(79,641)
Increase (decrease) in Due to Other Funds	(68,102)
Increase (decrease) Due to Other Governments	(18,417)
Increase (decrease) in Unearned Revenues	(805)
Increase (decrease) in other assets	(2,341)
Net Cash Provided by Operating Activities	<u>\$ 581,542</u>

The notes to the financial statements are an integral part of this statement.

REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2018

	Private Purpose Trust Fund
ASSETS	
Cash and Cash Equivalents	\$ 82,380
Due from Other Governments	1,300
Total Assets	<u>83,680</u>
LIABILITIES	
Due to Student Groups	83,680
Total Liabilities	<u>83,680</u>

The notes to the financial statements are an integral part of this statement.

REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	Private Purpose Trust Fund
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 45,164
Total Additions	45,164
DEDUCTIONS:	
Professional and Contracted Services	38,869
Other Operating Costs	6,295
Total Deductions	45,164
Change in Net Position	-
Total Net Position - September 1 (Beginning)	-
Total Net Position - August 31 (Ending)	\$ -

The notes to the financial statements are an integral part of this statement.

**REGION ONE EDUCATION SERVICE CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Region One Education Service Center (the “Center”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. The Board of Directors (“Board”), a seven-member group, has governance responsibilities over all activities related to educational services within the jurisdiction of the Center. The Center prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

Pensions. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS’s fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits. The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

As of August 31, 2018, Region One Education Service Center retrospectively/prospectively applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

The Board is elected by the member school boards, which in turn are elected by the public. All powers and duties not specifically delegated by statute to the Texas Education Agency (“TEA”) or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The Center receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the Center is not included in any other governmental “reporting entity” as defined by the GASB and there are no component units within the reporting entity.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Center with the interfund activities removed. *Governmental activities* include programs supported primarily by grants, state foundation funds and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the Center operates have shared in the payment of the direct costs. The “charges for services” column includes payments made by parties that purchase, use or directly benefit from goods or services provided by a given function or segment of the Center.

The Center provides executive, administrative, instructional and business support services in the form of staff development to school districts within the service area. The “grants and contributions” column includes amounts paid by organizations outside the Center to help meet the operational or capital requirements of a given function. Examples include grants through the Department of Education, Department of Health & Human Services, Texas Education Agency, Texas Workforce Commission, Texas Department of Agriculture and Early Childhood Intervention. If revenue is not program revenue, it is general revenue used to support all of the Center’s functions.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for Center operations, they are not included in the government-wide statements. The Center considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do 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 the 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The Center considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of workshop fees, and co-op consortium membership fees. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The Center applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

D. BASIS OF PRESENTATION - FUND ACCOUNTING

The Center reports the following major governmental funds:

1. **General Fund** - is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds, are accounted for in this fund.
2. **GEAR Up** - is used to account for resources restricted to, or designated for the implementation and monitoring of the student's academic progress.
3. **IDEA-PART B** – is used to account for resources restricted to, or designated for operation of educational programs for children with disabilities.
4. **Project Rise** - is used to account for resources restricted to, or designated for the creation of a K-12th grade pipeline of highly-effective teachers, leaders and educators to increase ALL students' academic achievement, graduation rates and college enrollment.
5. **Early Childhood Intervention** – is used to account for sources restricted to, or designated for specific purposes as stipulated within the contract.
6. **Capital Projects Fund** - is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BASIS OF PRESENTATION - FUND ACCOUNTING (CONTINUED)

Additionally, the Center reports the following fund type(s):

Governmental Funds:

1. ***Special Revenue Funds*** - are used to account for resources restricted to specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. ***Debt Service Fund*** - is used to account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund. The Center has no Debt Service Fund.
3. ***Permanent Funds*** - is used to account for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the Center's programs.

Proprietary Funds:

1. ***Internal Service Funds*** - are used to account for revenues and expenses related to services provided to organizations inside the Center on a cost reimbursement basis are accounted for in an internal service fund.

Fiduciary Funds:

1. ***Private Purpose Trust Funds*** - are used to account for donations, which have stipulations that the principal may not be expended; and the income earned may only be used for a specific purpose. The Center's Private Purpose Trust Funds are the Region One School Board Association and RGV Association of School Librarians.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the Center considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. Inventories of supplies on the balance sheet are stated at weighted average cost and they include consumable maintenance, instructional and office items. Supplies are recorded as expenditures when they are consumed.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.
4. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Center as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, furniture and equipment of the Center is depreciated using the straight line method over the following estimated useful lives:

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. OTHER ACCOUNTING POLICIES (CONTINUED)

<u>Assets</u>	<u>Years</u>
Buildings	30
Vehicles	6
Office Equipment	3-5
Computer Equipment	3

5. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change for future construction needs.
6. 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 Center 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.
 - **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 board resolution by the Board. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of non-spendable and restricted fund balances since that practice would commit funds that the Center does not have. Board commitments must occur before the end of the reporting period with amounts to be determined subsequently.
 - **Assigned:** This classification includes amounts that are constrained by the Center's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board, the Superintendent, or Superintendent's designee.
 - **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.

The order of spending and availability shall be to reduce funds from the listed areas in the following order: restricted, committed, assigned, and unassigned.

7. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. OTHER ACCOUNTING POLICIES (CONTINUED)

8. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or 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.
9. Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
10. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts and service centers to display these codes in the financial statements filed with the agency in order to insure accuracy in building a statewide database for policy development and funding plans.
11. The Center is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year, the Center purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.
12. Indirect expenses are charged upon a service center-wide cost allocation plan, which allocates these costs based upon the number of full time equivalents.
13. Sometimes the Center will fund outlays for a particular purpose from both restricted and unrestricted (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Center's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Directors adopts an "appropriated budget" for the General Fund. The Center is required to present the adopted and final amended budgeted revenues and expenditures. The Center compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1.

1. Prior to August 20th the Center prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. Public notice of the meeting must be given at least ten days prior to the meeting.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. BUDGETARY DATA (CONTINUED)

3. Prior to September 1st, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. During the year, the budget was amended as necessary.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function or object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31st, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS.

For the year ended August 31, 2018, expenditures exceeded appropriations in the following functions as noted:

General Fund	
Function	Amount
71	\$ 39,176

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

Center Policies and Legal Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the center complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk for Deposits – The Center limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. At year-end, the Center was not exposed to foreign risk.

As of August 31, 2018, the following are the Center's cash and cash equivalents with respective maturities and credit ratings:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Percent</u>	<u>Maturity in Less Than One Year</u>	<u>Maturity in 1-10 Years</u>	<u>Maturity In Over 10 Years</u>	<u>Credit Rating</u>
Cash	\$ 1,319,739	-	\$ -	\$ -	\$ -	N/A
Investment Pools:						
TexPool	1,574,708	100.00%	1,574,708	-	-	AAAm
Texas Class Investment	1,230,937	100.00%	1,230,937	-	-	AAAm
Lone Star Now Public Fund	17,224,742	100.00%	17,224,742	-	-	
Total Investment Pools:	\$ 20,030,387	100.00%	\$ 20,030,387	\$ -	\$ -	
Total Cash and Cash Equivalents	\$ 21,350,126	100.00%	\$ 20,030,387			

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

Center Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Region One Education Service Center is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for Region One Education Service Center are specified below:

Credit Risk – In accordance with state law and the Center's investment policy, investments in mutual funds and investment pools must be rated at least AAA or have an equivalent rating, commercial paper must be rated at least A-1, P-1 or have an equivalent rating, and obligations of states, agencies, counties, and cities must be at least A or its equivalents. As of August 31, 2018, the center's investments in TexPool was rated AAAM by Standard and Poor's (S&P), Texas Class was rated AAAM by Standard and Poor's (S&P).

Custodial Credit Risk for Investments – To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the Center requires counterparties to register the securities in the name of the Center and hand them over to the Center or its designated agent. This includes securities in securities lending transactions. All of the securities are in the Center's name and held by the Center or its agent.

Concentration of Credit Risk – To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the Center limits investments to less than 5% of its total investments. The Center further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the Center does not purchase any investments greater than five (5) years for its operating funds.

Foreign Currency Risk for Investments – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment. At year-end, the Center was not exposed to foreign currency risk.

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the general-purpose financial statements, disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the Center adhered to the requirements of the Act. Additionally, investment practices of the Center were in accordance with local policies.

The Center’s general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments which have a remaining term of one year or less at time of purchase. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

In this discussion and in the table below, investments are defined according to GASB 72 as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. An asset initially reported as a capital asset and later held for sale would not subsequently be reclassified as an investment

As of August 31, 2018, Region One Education Service Center had the following investments subject to the fair value measurement (dollar amounts are in thousands).

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
TexPool	\$ 1,574,708	\$ 1,574,708	\$ -	\$ -	\$ -
Texas Class Investment	1,230,937	1,230,937	-	-	-
Lone Star NOW Public Fund	17,224,742	17,224,742	-	-	-
Total	<u>\$ 20,030,387</u>	<u>\$ 20,030,387</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

B. DUE FROM OTHER GOVERNMENTS

The Center participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. Amounts due from federal and state governments as of August 31, 2018, are summarized below. Some federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Total</u>
General	\$ 40,440	\$ -	\$ 512,290	\$ 552,730
Special Revenue	1,290,341	2,201,293	1,250,590	4,742,224
Internal Service	-	-	16,520	16,520
Total	<u>\$ 1,330,781</u>	<u>\$ 2,201,293</u>	<u>\$ 1,779,400</u>	<u>\$ 5,311,474</u>

C. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at August 31, 2018 consisted of the following individual fund balances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	General Fund	\$ 465,963
General Fund	Special Revenue Funds	3,161,689
Internal Service Fund	General Fund	20,250
Total		<u>\$ 3,647,902</u>

The entire balance of \$3,647,902 resulted from end of year reclassifications made between the General Fund.

The following summary briefly summarizes the Center's transfer activity:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
Other Nonmajor Funds	Other Nonmajor Funds	\$ 142,018	Operating Costs
Capital Projects Fund	General Fund	1,000,000	Construction
Internal Service Funds	General Fund	100,000	Operating Costs
	Total	<u>\$ 1,242,018</u>	

D. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

As of August 31, 2018, the Center reevaluated the allowance for uncollectible accounts in the General Fund for outstanding accounts receivable balances. The Center's accounts receivable balance within the general fund consists of \$234,409 with no allowance at year end.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the Center for the year ended August 31, 2018, was as follows:

	Balance	Changes During Year		Balance
	<u>9/1/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>8/31/2018</u>
Governmental Activities:				
Land	\$ 110,473	\$ -	\$ -	\$ 110,473
Buildings & Improvements	21,144,335	-	-	21,144,335
Furniture & Equipment	2,241,603	149,415	(186,798)	2,204,220
Capital Leases	-	-	-	-
Construction in Progress	-	417,487	-	417,487
Library Books & Media	<u>1,395,644</u>	<u>-</u>	<u>-</u>	<u>1,395,644</u>
Totals at Historic Cost	<u>24,892,055</u>	<u>566,902</u>	<u>(186,798)</u>	<u>25,272,159</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(10,504,656)	(760,066)	-	(11,264,722)
Furniture & Equipment	(1,863,344)	(150,230)	186,798	(1,826,776)
Capital Leases	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Accumulated Depreciation	<u>(12,368,000)</u>	<u>(910,296)</u>	<u>186,798</u>	<u>(13,091,498)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 12,524,055</u>	<u>\$ (343,394)</u>	<u>\$ -</u>	<u>\$ 12,180,661</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 25,965
Instructional Resources & Media Services	42,125
Curriculum & Instructional Staff Development	86,385
Instructional Leadership	14,895
Student (Pupil) Transportation	166
General Administration	39,852
Plant Maintenance & Operations	319,994
Security and Monitoring Services	-
Data Processing Services	214,319
Community Services	44,177
School District Administrative Support (ESC only)	63,278
Facilities Acquisition and Construction	-
In addition, depreciation on capital assets held by the Center's Internal Service Fund charged to the various functions based on their usage of the assets	<u>59,140</u>
Totals	<u>\$ 910,296</u>

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

F. CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities for the Center for the year ended August 31, 2018, was as follows:

<u>Purpose</u>	<u>Amount of Original Issue</u>	<u>Interest Rate</u>	<u>Balance 9/1/2017</u>	<u>Principal Issued</u>	<u>Principal Retired</u>	<u>Balance 8/31/2018</u>	<u>Due Within One Year</u>
<u>Capital Lease</u>							
SHI Government Solutions	\$ 235,054	-	\$ 78,351	\$ -	\$ (78,351)	\$ -	\$ -
Total Long-Term Liabilities			\$ 78,351	\$ -	\$ (78,351)	\$ -	\$ -

G. COMMITMENTS UNDER LEASES

Capital Leases

The Public Property Finance Act gives the Center authority to enter into capital leases for the acquisition of personal property. Principal repayment requirements due after August 31, 2018, and current principal and interest requirements are recorded in the applicable fund.

The \$235,054 lease agreement represents IT equipment that is financed under authority provided by Texas Education Code S.8.055. That section authorizes the Center to purchase or lease property or acquire property through lease-purchase and may incur debts for that purpose. The 3-year lease agreement will consist of annual payments of \$78,352 which will be due on the 1st of December for each year. Interest of 1.5% per month will be paid for all overdue amounts until paid. As of August 31, 2018, the Center has paid the lease in full.

Operating (Noncapitalized) Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2018, are as follows:

<u>Year ending August 31,</u>	
2019	\$ 118,400
2020	54,400
Total Minimum Rentals	\$ 172,800

H. LITIGATION

The Center's attorney reports no pending or threatened lawsuits, claims or assessments, including civil rights complaints.

I. COMMITMENTS AND CONTINGENCIES

The Center participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Center has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the Center, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

J. **PROPERTY INSURANCE AND PERSONNEL BONDS**

The Center carries insurance on the building and contents in the amount of \$19,712,324. Valuable papers and records to “Direct Physical loss, replacement cost Business Personal Property” in the amount of \$9,728,173. Vehicles are insured at actual cash value and each vehicle carries property damage and medical liability insurance as required by state law. All employees are bonded for \$250,000 each under blanket coverage. Premiums, although covering periods extending into subsequent years, are recorded as expenditures at the time of purchase.

K. **DEFINED PENSION PLAN**

Plan Description. Region One Education Service Center participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension’s Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member’s age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member’s age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

Contributions. Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

K. DEFINED PENSION PLAN (CONTINUED)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates		
	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contributions		\$ 938,478
Current fiscal year member contributions		\$ 1,907,560
2017 measurement year NECE On-Behalf Contributions		\$ 1,034,861

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

K. DEFINED PENSION PLAN (CONTINUED)

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2017, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	8/31/2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 31, 2015.

Discount Rate. The discount rate used to measure the total pension liability was 8.0. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017, are summarized below:

III. **DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)**

K. **DEFINED PENSION PLAN (CONTINUED)**

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bond	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	-		2%
Alpha	-		1%
Total	100%		8.7%

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Proportionate share of the net pension liability:	\$ 13,999,005	\$ 8,304,060	\$ 3,562,094

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, the Center reported a liability of \$8,304,060 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Center. The amount recognized by the Center as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Center were as follows:

Center's proportionate share of the collective net pension liability	\$ 8,304,060
State's proportionate share that is associated with the Center	<u>10,117,370</u>
Total	<u>\$ 18,421,430</u>

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

K. DEFINED PENSION PLAN (CONTINUED)

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0259707919% which was a decrease of 0.0013754274% from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation. There were no changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2018, the Center recognized pension expense of \$2,108,249 and revenue of \$771,713 for support provided by the State.

At August 31, 2018, the Center reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 121,492	\$ 447,827
Changes in actuarial assumptions	378,263	216,547
Differences between projected and actual investment earnings	-	605,182
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>2,116,201</u>	<u>519</u>
Total as of August 31, 2017 measurement date	2,615,956	1,270,075
Contributions paid to TRS subsequent to the measurement date	<u>938,478</u>	<u>-</u>
Total	<u>\$ 3,554,434</u>	<u>\$ 1,270,075</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended August 31,</u>	<u>Pension Expense</u> <u>Amount</u>
2019	\$ 231,258
2020	761,327
2021	190,527
2022	25,289
2023	92,184
Thereafter	45,296

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. Region One Education Service Center participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care’s fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided. TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

	TRS-Care Plan Premium Rates		
	Effective Sept. 1, 2016 - Dec. 31, 2017		
	TRS Care-1 <u>Basic Plan</u>	TRS Care-2 <u>Optional Plan</u>	TRS Care-3 <u>Optional Plan</u>
Retiree*	\$0	\$70	\$100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
<u>Surviving Children Only</u>	28	62	82

*or surviving spouse

Contributions. Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
Current fiscal year employer contributions		\$282,885
Current fiscal year member contributions		\$162,879
2017 measurement year NECE on-behalf contributions		\$ 160,190

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS Care OPEB program). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree. TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

Actuarial Assumptions. The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability	
Incidence	

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% - 9.50%
Healthcare Trend Rates	4.50% - 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad-hoc Post Employment Benefit Changes	None

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Other Information. There was a significant plan change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered, and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

Discount Rate. A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Rate of Return
As of August 31, 2017

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bond	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	-		2%
Alpha	-		1%
Total	<u>100%</u>		<u>8.7%</u>

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
Proportionate share of the net OPEB liability:	\$ 20,109,533	\$ 17,038,393	\$ 14,569,888

Healthcare Cost Trend Sensitivity Analysis. The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 14,186,164	\$ 17,038,393	\$ 20,780,876

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2018, Region One Education Service Center reported a liability of \$ 17,038,393 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with Region One Education Service Center were as follows:

Center's proportionate share of the collective net OPEB liability	\$ 17,038,393
State's proportionate share that is associated with the Center	<u>13,398,780</u>
Total	<u>\$ 30,437,173</u>

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was 0.0391811045% which was the same proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation. The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

- Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

- The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

There were no changes of benefit terms that affected measurement of the Total OPEB liability during the measurement period.

For the year ended August 31, 2018, Region One Education Service Center recognized OPEB expense of \$10,094,438 and revenue of \$4,483,588 for support provided by the State.

At August 31, 2018, Region One Education Service Center reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ -	\$ 355,689
Changes in actuarial assumptions	-	6,771,502
Differences between projected and actual investment earnings	2,588	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	79	-
Total as of August 31, 2017 measurement date	\$ 2,667	\$ 7,127,191
Contributions paid to TRS subsequent to the measurement date	282,885	-
Total as of fiscal year-end	<u>\$ 285,552</u>	<u>\$ 7,127,191</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended August 31,</u>	<u>OPEB Expense Amount</u>
2019	\$ (940,089)
2020	(940,089)
2021	(940,089)
2022	(940,089)
2023	(940,736)
Thereafter	(2,423,432)

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

M. HEALTH CARE COVERAGE-ACTIVE EMPLOYEES

Plan Description. During the year ended August 31, 2018, employees of the Center were covered by a health insurance plan (the “Plan”). The Center paid premiums of \$542.58 per month per full-time employee, \$176 and \$225 per month for sub-hub employees and part-time instructors, respectively, to the Plan and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by AETNA, Allegian HMO Plan. Caremark administers the prescription drug plan. The latest financial information on the state-wide plan may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

N. Medicare Part D – On-behalf Payments

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. As a result, this provision allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by TRS-Care on behalf of plan participants. These on-behalf payments of \$70,527, \$78,572, and \$92,351 were recognized for the years ended August 31, 2018, 2017, and 2016, respectively, as equal revenues and expenditures.

O. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2018, the Center had no liability for accrued sick leave or vacation leave.

P. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and/or disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

Q. SHARED SERVICE AGREEMENTS

The Center is the fiscal agent for a Shared Service Arrangement (“SSA”), which provides assistance to support various comprehensive professional development plans to the member districts listed below. The fiscal agent provides all services. According to guidance provided in TEA’s Resource Guide, the Center has accounted for fiscal agent’s activities of the SSA in a special revenue fund and will be accounted for using Model 1 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

County		Title II	Title III
District	Member Districts	Part A	Part A LEP
		342	350
031909	Point Isabel ISD	\$ -	\$ -
031916	South Texas ISD	-	2,347
108804	Mid-Valley Academy	8,367	868
108914	La Villa ISD	-	187
124901	Jim Hogg ISD	-	2,098
214902	San Isidro ISD	-	2,511
240801	Gateway Academy	6,858	4,913
240904	Webb CONS ISD	-	433
245901	Lasara ISD	-	1,327
245904	San Perlita ISD	-	677
		<u>\$ 15,225</u>	<u>\$ 15,361</u>

R. PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the Center adopted GASB statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled (\$29,773,767) which restated the beginning net position balance of \$409,932.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

S. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS-STATEMENT OF ACTIVITIES

Expenses activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

Following are the effects on the Statement of Activities because of the negative on-behalf accruals recorded:

	Operating Grants & Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions Excluding On-Behalf Accruals
11 Instruction	\$ 7,782,739	\$ (2,333,830)	\$ 10,116,569
12 Instructional resources and media services	-	(30,357)	30,357
13 Curriculum and staff development	7,177,994	(698,015)	7,876,009
21 Instructional leadership	1,869,422	(269,939)	2,139,361
23 School leadership	715,072	-	715,072
31 Guidance, counseling, and evaluation services	8,928	-	8,928
32 Social work services	-	-	-
33 Health services	-	-	-
34 Student (pupil) transportation	-	-	-
35 Food services	-	-	-
36 Extracurricular activities	-	-	-
41 General administration	-	(377,126)	377,126
51 Facilities maintenance and operations	768,360	(60,123)	828,483
52 Security and monitoring services	-	-	-
53 Data processing services	480,921	(319,843)	800,764
61 Community services	349,789	-	349,789
62 School District Administrative Support Services	1,676,581	(394,355)	2,070,936
93 Payments related to shared services arrangements	2,678,445	-	2,678,445
	<u>\$ 23,508,251</u>	<u>\$ (4,483,588)</u>	<u>\$ 27,991,839</u>

REQUIRED SUPPLEMENTARY INFORMATION

REGION ONE EDUCATION SERVICE CENTER
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 20,583,873	\$ 22,944,395	\$ 21,605,662	\$ (1,338,733)
5800	State Program Revenues	1,781,209	1,971,451	2,840,433	868,982
5900	Federal Program Revenues	850,000	850,000	1,140,624	290,624
5020	Total Revenues	23,215,082	25,765,846	25,586,719	(179,127)
EXPENDITURES:					
Current:					
0011	Instruction	6,880,629	8,619,927	8,028,612	591,315
0012	Instructional Resources and Media Services	1,166,398	1,305,426	1,290,120	15,306
0013	Curriculum and Instructional Staff Development	4,703,809	5,144,960	4,701,639	443,321
0021	Instructional Leadership	534,927	640,211	589,820	50,391
0041	General Administration	2,438,424	2,582,170	2,404,552	177,618
0051	Facilities Maintenance and Operations	883,278	927,782	862,741	65,041
0053	Data Processing Services	3,298,415	3,410,138	2,922,330	487,808
0061	Community Services	44,000	29,000	18,934	10,066
0062	School District Administrative Support (ESC Only)	3,456,925	3,577,390	3,033,893	543,497
Debt Service:					
0071	Principal on Long-Term Debt	-	-	39,176	(39,176)
6030	Total Expenditures	23,406,805	26,237,004	23,891,817	2,345,187
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(191,723)	(471,158)	1,694,902	2,166,060
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	(1,000,000)	(1,100,000)	(100,000)
1200	Net Change in Fund Balances	(191,723)	(1,471,158)	594,902	2,066,060
0100	Fund Balance - September 1 (Beginning)	13,336,720	13,336,720	13,336,720	-
3000	Fund Balance - August 31 (Ending)	\$ 13,144,997	\$ 11,865,562	\$ 13,931,622	\$ 2,066,060

REGION ONE EDUCATION SERVICE CENTER
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.0259707%	0.0245954%	0.0254251%	0.014951%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 8,304,060	\$ 9,294,223	\$ 8,987,434	\$ 3,993,619
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	10,117,370	11,407,472	9,336,464	7,143,012
Total	<u>\$ 18,421,430</u>	<u>\$ 20,701,695</u>	<u>\$ 18,323,898</u>	<u>\$ 11,136,631</u>
District's Covered Payroll	\$ 22,556,245	\$ 20,168,432	\$ 18,328,960	\$ 18,328,960
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	36.81%	46.08%	49.03%	21.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2017 for year 2018, August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only four years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

REGION ONE EDUCATION SERVICE CENTER
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ 938,478	\$ 851,178	\$ 781,457	\$ 752,848
Contribution in Relation to the Contractually Required Contribution	(938,478)	(851,178)	(781,457)	(752,848)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 24,571,186	\$ 22,556,245	\$ 20,618,432	\$ 18,328,960
Contributions as a Percentage of Covered Payroll	3.82%	3.77%	3.79%	4.11%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Note: In accordance with GASB 68, Paragraph 138, only four years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

REGION ONE EDUCATION SERVICE CENTER
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2018

	<u>FY 2018</u> <u>Plan Year 2017</u>
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.039181105%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 17,038,393
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	13,398,780
Total	<u>\$ 30,437,173</u>
District's Covered Payroll	\$ 22,556,245
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	75.54%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the year for which this information is available. Additional information will be added until 10 years of data are available and reported.

REGION ONE EDUCATION SERVICE CENTER
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2018

	2018
Contractually Required Contribution	\$ 282,885
Contribution in Relation to the Contractually Required Contribution	(282,885)
Contribution Deficiency (Excess)	\$ -0-
District's Covered Payroll	\$ 24,931,186
Contributions as a Percentage of Covered Payroll	1.13%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

REGION ONE EDUCATION SERVICE CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2018

Budgetary Information

The Board of Trustees adopts an “appropriated budget” for the General Fund. The Center is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The Center compares the final amended budget to actual revenue and expenditures. The Center presented the General Fund budgetary comparison schedule as required supplementary information.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 20, the Center prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the Center has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget. The Center had not outstanding end-of-year encumbrances.

COMBINING STATEMENTS

REGION ONE EDUCATION SERVICE CENTER
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	220 Adult Education Federal	223 TANF Family Assistance
ASSETS				
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -
1240	Due from Other Governments	141,206	272,992	197,655
1290	Other Receivables	-	-	-
1000	Total Assets	<u>\$ 141,206</u>	<u>\$ 272,992</u>	<u>\$ 197,655</u>
LIABILITIES				
2110	Accounts Payable	\$ -	\$ 10,381	\$ 1,431
2160	Accrued Wages Payable	-	-	46,693
2170	Due to Other Funds	34,694	234,282	149,531
2180	Due to Other Governments	106,512	28,329	-
2300	Unearned Revenue	-	-	-
2000	Total Liabilities	<u>141,206</u>	<u>272,992</u>	<u>197,655</u>
FUND BALANCES				
Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 141,206</u>	<u>\$ 272,992</u>	<u>\$ 197,655</u>

225 IDEA - Part B Preschool	241 ESC Child Nutrition	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	273 Mathematics & Science Partnerships	288 Project HEAL	289 Other Federal Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
93,381	176,304	28,857	9,970	18,387	53,710	211,628	55,104
-	-	-	-	-	-	-	-
<u>\$ 93,381</u>	<u>\$ 176,304</u>	<u>\$ 28,857</u>	<u>\$ 9,970</u>	<u>\$ 18,387</u>	<u>\$ 53,710</u>	<u>\$ 211,628</u>	<u>\$ 55,104</u>
\$ 1,573	\$ 8,976	\$ -	\$ -	\$ -	\$ -	\$ 38,530	\$ 991
-	-	-	-	-	-	-	-
78,247	135,713	27,337	504	18,387	53,710	112,750	53,749
13,561	31,615	1,520	9,466	-	-	60,348	364
-	-	-	-	-	-	-	-
<u>93,381</u>	<u>176,304</u>	<u>28,857</u>	<u>9,970</u>	<u>18,387</u>	<u>53,710</u>	<u>211,628</u>	<u>55,104</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 93,381</u>	<u>\$ 176,304</u>	<u>\$ 28,857</u>	<u>\$ 9,970</u>	<u>\$ 18,387</u>	<u>\$ 53,710</u>	<u>\$ 211,628</u>	<u>\$ 55,104</u>

REGION ONE EDUCATION SERVICE CENTER
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2018

Data Control Codes	342 SSA - ESEA Title II,A Training	350 SSA - III, A English Lang. Acquisition	385 Visually Impaired SSVI	405 ESC Gifted and Talented	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from Other Governments	7,359	9,232	70,830	2,289
1290	Other Receivables	-	-	-	-
1000	Total Assets	<u>\$ 7,359</u>	<u>\$ 9,232</u>	<u>\$ 70,830</u>	<u>\$ 2,289</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ 826	\$ -
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	2,875	5,088	69,102	2,289
2180	Due to Other Governments	4,484	4,144	902	-
2300	Unearned Revenue	-	-	-	-
2000	Total Liabilities	<u>7,359</u>	<u>9,232</u>	<u>70,830</u>	<u>2,289</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 7,359</u>	<u>\$ 9,232</u>	<u>\$ 70,830</u>	<u>\$ 2,289</u>

429 Other State Special Revenue Funds	482 Financial Literacy	483 T-STEAM Training	490 Chapter 41	491 STAAR One Item Bank	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ 29,599	\$ 53,275	\$ 292,727	\$ 65,853	\$ 79,317	\$ 520,771
82,063	-	9,400	-	-	5,601	1,519,891
-	-	46,017	-	-	-	46,017
<u>\$ 82,063</u>	<u>\$ 29,599</u>	<u>\$ 108,692</u>	<u>\$ 292,727</u>	<u>\$ 65,853</u>	<u>\$ 84,918</u>	<u>\$ 2,086,679</u>
\$ -	\$ -	\$ -	\$ 38	\$ -	\$ -	\$ 63,100
-	-	-	-	-	-	53,262
68,522	-	-	-	-	-	1,076,280
11,069	115	1,540	100	-	5,600	317,169
2,472	-	-	-	65,853	-	68,325
<u>82,063</u>	<u>115</u>	<u>1,540</u>	<u>138</u>	<u>65,853</u>	<u>5,600</u>	<u>1,578,136</u>
-	29,484	107,152	292,589	-	79,318	508,543
-	29,484	107,152	292,589	-	79,318	508,543
<u>\$ 82,063</u>	<u>\$ 29,599</u>	<u>\$ 108,692</u>	<u>\$ 292,727</u>	<u>\$ 65,853</u>	<u>\$ 84,918</u>	<u>\$ 2,086,679</u>

REGION ONE EDUCATION SERVICE CENTER
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	220 Adult Education Federal	223 TANF Family Assistance
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	408,686	-
5900 Federal Program Revenues	177,801	1,362,182	2,718,097	398,220
5020 Total Revenues	177,801	1,362,182	3,126,783	398,220
EXPENDITURES:				
Current:				
0011 Instruction	-	2,946	1,881,643	256,649
0013 Curriculum and Instructional Staff Development	135,944	160,583	24,944	-
0021 Instructional Leadership	10,950	157,933	149,202	38,797
0023 School Leadership	-	-	706,112	101,320
0051 Facilities Maintenance and Operations	-	75,780	238,918	1,454
0053 Data Processing Services	-	78,385	125,964	-
0061 Community Services	-	46,513	-	-
0062 School District Administrative Support (ESC Only)	30,907	840,042	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030 Total Expenditures	177,801	1,362,182	3,126,783	398,220
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

225 IDEA - Part B Preschool	241 ESC Child Nutrition	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	273 Mathematics & Science Partnerships	288 Project HEAL	289 Other Federal Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
314,984	755,075	73,038	11,386	97,123	322,195	974,352	320,051
314,984	755,075	73,038	11,386	97,123	322,195	974,352	320,051
-	-	-	-	-	-	553,215	-
304,302	-	66,517	-	97,123	316,835	262,289	74,906
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,661	59,575	4,206	-	-	3,768	6,163	-
4,021	16,060	2,315	-	-	1,592	3,642	4,923
-	-	-	-	-	-	-	192,101
-	679,440	-	11,386	-	-	-	48,121
-	-	-	-	-	-	149,043	-
314,984	755,075	73,038	11,386	97,123	322,195	974,352	320,051
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

REGION ONE EDUCATION SERVICE CENTER
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	342 SSA - ESEA Title II,A Training	350 SSA - III, A English Lang. Acquisition	385 Visually Impaired SSVI	405 ESC Gifted and Talented
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	340,625	10,440
5900 Federal Program Revenues	23,195	20,121	-	-
5020 Total Revenues	23,195	20,121	340,625	10,440
EXPENDITURES:				
Current:				
0011 Instruction	-	-	168,161	-
0013 Curriculum and Instructional Staff Development	14,700	5,680	156,004	10,440
0021 Instructional Leadership	-	9,681	-	-
0023 School Leadership	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	10,573	-
0053 Data Processing Services	524	-	5,887	-
0061 Community Services	-	-	-	-
0062 School District Administrative Support (ESC Only)	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	7,971	4,760	-	-
6030 Total Expenditures	23,195	20,121	340,625	10,440
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

429 Other State Special Revenue Funds	482 Financial Literacy	483 T-STEAM Training	490 Chapter 41	491 STAAR One Item Bank	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ 24,434	\$ 296,070	\$ -	\$ 205,109	\$ 125,888	\$ 651,501
149,275	-	-	-	-	-	909,026
-	-	-	-	-	-	7,567,820
149,275	24,434	296,070	-	205,109	125,888	9,128,347
-	9,109	52,989	-	-	119,585	3,044,297
116,199	19,604	170,599	118,987	338,337	5,600	2,399,593
584	5,981	-	126,177	-	-	499,305
-	-	-	-	-	-	807,432
-	-	30,087	75,940	5,648	9,252	528,025
-	105	4,855	6,937	3,142	4,190	262,542
12,320	364	-	-	-	-	251,298
20,172	-	-	-	-	-	1,630,068
-	-	-	-	-	-	161,774
149,275	35,163	258,530	328,041	347,127	138,627	9,584,334
-	(10,729)	37,540	(328,041)	(142,018)	(12,739)	(455,987)
-	-	-	-	142,018	-	142,018
-	-	(142,018)	-	-	-	(142,018)
-	-	(142,018)	-	142,018	-	-
-	(10,729)	(104,478)	(328,041)	-	(12,739)	(455,987)
-	40,213	211,630	620,630	-	92,057	964,530
\$ -	\$ 29,484	\$ 107,152	\$ 292,589	\$ -	\$ 79,318	\$ 508,543

REGION ONE EDUCATION SERVICE CENTER
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 AUGUST 31, 2018

	752	754	799	
	Print Shop	Computer Operations	Internal Service Fund	Total Internal Service Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 3,892	\$ 25,974	\$ 15,765	\$ 45,631
Investments - Current	1,030,000	-	4,780,000	5,810,000
Due from Other Governments	1,515	-	15,005	16,520
Due from Other Funds	-	-	20,249	20,249
Other Receivables	38,850	-	124,641	163,491
Inventories	30,575	-	-	30,575
Other Current Assets	-	-	404	404
Total Current Assets	<u>1,104,832</u>	<u>25,974</u>	<u>4,956,064</u>	<u>6,086,870</u>
Noncurrent Assets:				
Capital Assets:				
Buildings and Improvements	-	-	85,813	85,813
Furniture and Equipment	41,577	243,292	318,538	603,407
Depreciation on Furniture and Equipment	(41,577)	(147,403)	(336,969)	(525,949)
Total Noncurrent Assets	<u>-</u>	<u>95,889</u>	<u>67,382</u>	<u>163,271</u>
Total Assets	<u>1,104,832</u>	<u>121,863</u>	<u>5,023,446</u>	<u>6,250,141</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	14,494	42,950	102,915	160,359
Due to Other Governments	2,249	20,650	4,488	27,387
Total Liabilities	<u>16,743</u>	<u>63,600</u>	<u>107,403</u>	<u>187,746</u>
NET POSITION				
Unrestricted Net Position	<u>1,088,089</u>	<u>58,263</u>	<u>4,916,043</u>	<u>6,062,395</u>
Total Net Position	<u>\$ 1,088,089</u>	<u>\$ 58,263</u>	<u>\$ 4,916,043</u>	<u>\$ 6,062,395</u>

REGION ONE EDUCATION SERVICE CENTER
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2018

	752	754	799	Total
	Print Shop	Computer Operations	Internal Service Fund	Internal Service Funds
OPERATING REVENUES:				
Local and Intermediate Sources	\$ 326,473	\$ 681,421	\$ 2,625,690	\$ 3,633,584
Total Operating Revenues	<u>326,473</u>	<u>681,421</u>	<u>2,625,690</u>	<u>3,633,584</u>
OPERATING EXPENSES:				
Payroll Costs	171,835	422,618	345,105	939,558
Professional and Contracted Services	183,466	192,191	1,553,232	1,928,889
Supplies and Materials	39,997	48,910	42,756	131,663
Other Operating Costs	7,332	9,253	99,775	116,360
Depreciation Expense	-	43,564	15,576	59,140
Total Operating Expenses	<u>402,630</u>	<u>716,536</u>	<u>2,056,444</u>	<u>3,175,610</u>
Income (Loss) Before Transfers	(76,157)	(35,115)	569,246	457,974
Transfer In	-	100,000	-	100,000
Change in Net Position	(76,157)	64,885	569,246	557,974
Total Net Position - September 1 (Beginning)	<u>1,164,246</u>	<u>(6,622)</u>	<u>4,346,797</u>	<u>5,504,421</u>
Total Net Position August 31 (Ending)	<u>\$ 1,088,089</u>	<u>\$ 58,263</u>	<u>\$ 4,916,043</u>	<u>\$ 6,062,395</u>

REGION ONE EDUCATION SERVICE CENTER
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	752	754	799	
	Print Shop	Computer Operations	Internal Service Fund	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>				
Cash Received from User Charges	\$ 326,473	\$ 681,421	\$ 2,625,489	\$ 3,633,383
Cash Payments to Employees for Services	(171,835)	(422,618)	(345,105)	(939,558)
Cash Payments for Professional Services	(58,301)	(274,666)	(1,595,922)	(1,928,889)
Cash Payments for Suppliers	(14,543)	(48,910)	(42,756)	(106,209)
Cash Payments for Other Operating Expenses	(7,332)	(9,253)	(60,600)	(77,185)
Net Cash Provided by (Used for) Operating Activities	<u>74,462</u>	<u>(74,026)</u>	<u>581,106</u>	<u>581,542</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>				
Operating Transfer In	-	100,000	-	100,000
Net Increase in Cash and Cash Equivalents	74,462	25,974	581,106	681,542
Cash and Cash Equivalents at Beginning of Year	959,430	-	4,214,659	5,174,089
Cash and Cash Equivalents at End of Year	<u>\$ 1,033,892</u>	<u>\$ 25,974</u>	<u>\$ 4,795,765</u>	<u>\$ 5,855,631</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>				
<u>Provided by (Used for) Operating Activities:</u>				
Operating Income (Loss):	\$ (76,157)	\$ (35,115)	\$ 569,246	\$ 457,974
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Depreciation	-	43,564	15,576	59,140
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in Receivables	(38,850)	-	(123,841)	(162,691)
Decrease (increase) in Inventories	(25,454)	-	-	(25,454)
Decrease (increase) in Due from Other	168,242	-	193,380	361,622
Decrease (Increase) in Due from Other Funds	40,000	-	20,257	60,257
Increase (decrease) in Accounts Payable	8,930	8,624	(97,195)	(79,641)
Increase (decrease) in Due to Other Funds	-	(79,419)	11,317	(68,102)
Increase (decrease) Due to Other Governments	(2,249)	(11,680)	(4,488)	(18,417)
Increase (decrease) in Unearned Revenues	-	-	(805)	(805)
Increase (decrease) in other assets	-	-	(2,341)	(2,341)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 74,462</u>	<u>\$ (74,026)</u>	<u>\$ 581,106</u>	<u>\$ 581,542</u>

FEDERAL AWARDS SECTION



P A T T I L L O , B R O W N & H I L L , L . L . P .
 CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' 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***

Board of Trustees
 Region One Education Service Center

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Region One Education Service Center, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise Region One Education Service Center's basic financial statements, and have issued our report thereon dated December 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Region One Education Service Center'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 Region One Education Service Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Region One Education Service Center's internal control.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Region One Education Service Center'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*.

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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.



Brownsville, Texas
December 18, 2018



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Board of Trustees
Region One Education Service Center

Report on Compliance for Each Major Federal Program

We have audited Region One Education Service Center's compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Region One Education Service Center's major federal programs for the year ended August 31, 2018. Region One Education Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Region One Education Service Center'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; and the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance 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 Region One Education Service Center'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 program. However, our audit does not provide a legal determination of the Region One Education Service Center's compliance.

Opinion on Each Major Federal Program

In our opinion, Region One Education Service Center 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 August 31, 2018.

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Report on Internal Control Over Compliance

Management of Region One Education Service Center 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 Region One Education Service Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine as a basis for designing 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 the Uniform Guidance, 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 Region One Education Service Center'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 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 were not 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Patricia, Dawn Hill, C.C.P.

Brownsville, Texas
December 18, 2018

REGION ONE EDUCATION SERVICE CENTER
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2018

I. Summary of the Auditors' Results:

The type of auditors' report on financial statements:	Unmodified
Regarding internal control over financial reporting:	
• Material weakness(es) identified:	No
• Significant deficiency(ie) identified:	None reported
• Noncompliance material to the financial statements:	None
Regarding internal control over major programs:	
• Material weakness(es) identified:	No
• Significant deficiency(ies) identified:	None
• Type of auditors' report on compliance with major programs:	Unmodified
Any audit findings which are required to be reported in accordance with 2 CFR 200.516(a):	No
Major programs are as follows:	ESEA Title I Migrant CFDA 84.011A Project Heal CFDA 84.411C Food & Nutrition CFDA 10.560 IDEA B CFDA 84.027
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Low risk auditee:	Yes

II. Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

None

III. Findings and Questioned Costs for Federal Awards.

None

REGION ONE EDUCATION SERVICE CENTER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

Reference No.

Finding/Noncompliance

None reported.

REGION I EDUCATION SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures & Indirect Cost
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Texas Department of Agriculture:</i>			
ESC Child Nutrition Program	10.560	108-950	\$ 47,375
ESC Child Nutrition Program	10.560	108-950	<u>749,073</u>
Total CFDA 10.560			<u>796,448</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>796,448</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Programs:</i>			
Title IV, Operation College Bound	84.066A	P066A160111	<u>287,042</u>
Total CFDA 84.066A			<u>287,042</u>
Title IV, GEAR UP Program	84.334A	P334A110180	<u>4,218,220</u>
Total CFDA 84.334A			<u>4,218,220</u>
Title II, Project RISE	84.374A	U374A160002	<u>3,910,115</u>
Total CFDA 84.374A			<u>3,910,115</u>
Title IV, Project HEAL2	84.411C	U411C160117	<u>993,358</u>
Total CFDA 84.411A			<u>993,358</u>
Total Direct Programs			<u>9,408,735</u>
<i>Passed Through State Department of Education:</i>			
ESEA Title 1, Part A Focus School Support	84.010A	186101177110001	38,545
ESEA Title 1, Part A Basic Services	84.010A	186101197110001	35,000
ESEA Title 1, ESC Priority School Support	84.010A	176101287110001	<u>113,861</u>
Total CFDA 84.010A			<u>187,406</u>
ESEA Title 1, Part C, - Migratory Basic Services	84.011A	186150027110001	1,409,992
ESEA Title 1, Part C, - Migrant Special Project State PAC	84.011A	3629	<u>26,790</u>
Total CFDA 84.011A			<u>1,436,782</u>
ESEA Title III, Part A	84.365A	186710027110001	101,496
ESEA Title III, Part A - LEP	84.365A	17671001108950	880
ESEA Title III, Part A - LEP	84.365A	18671001108950	<u>20,037</u>
Total CFDA 84.365A			<u>122,413</u>

REGION I EDUCATION SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures & Indirect Cost
IDEA - Part B - Pre-School	84.173A	176610227110001	16,104
IDEA - Part B - Pre-School	84.173A	186610227110001	<u>316,359</u>
Total CFDA 84.173A			<u>332,463</u>
IDEA - Part B - Leadership	84.027A	186600567110001	1,684,553
IDEA - Part B - Special FIEP, Charter, Math and Lit	84.027A	186600571089506681	49,421
IDEA - Part B - Access General To Curriculum	84.027A	186600587110001	374,553
IDEA - Part B - PBIS	84.027A	186600597110001	121,803
IDEA - Part B - Special FIEP, Charter, Math and Lit	84.027A	186600571089506682	7,224
IDEA - Part B - Special FIEP, Charter, Math and Lit	84.027A	186600571089506683	310,059
IDEA - Part B - Special FIEP, Charter, Math and Lit	84.027A	186600571089506683	127,215
IDEA - Part B - Special Education ESC Liaison Grant	84.027A	1766006570001	147,111
IDEA - Part B Disc.	84.027A	186600021089506674	116,791
IDEA - Part B Sensory Impairments	84.027A	186600227110001	<u>45,097</u>
Total CFDA 84.027A			<u>2,983,825</u>
ESC CTE Admin and PBM Admin	84.048A	184200107110001	59,572
ESC CTE - Leadership	84.048A	184200097110001	12,500
ESC CTE - Nontraditional	84.048A	184200127110001	<u>5,000</u>
Total CFDA 84.048A			<u>77,072</u>
ESEA, Title II, Part A, TPTR	84.367A	17694501108950	1,514
ESEA, Title II, Part A, TPTR	84.367A	18694501108950	22,537
ESC SLO PD Grants	84.367A	166945617110001	481
Equity Plan Support	84.367A	166945647110001	1,547
Equity Plan Support	84.367A	176945647110001	<u>9,970</u>
Total CFDA 84.367A			<u>36,048</u>
TTL I ESC NCLB Support	84.999	186000117110001	<u>50,811</u>
Total CFDA 84.999			<u>50,811</u>
 Total Passed Through State Dept. of Education			 <u>5,226,821</u>
 <i>Passed Through University of Texas at Austin:</i>			
Texas Reg. Collaborative - Science	84.366B	176944047110001	106,548
Texas Reg. Collaborative - Computer Science	84.366B	176944047110001	150,000
Texas Reg. Collaborative - Math	84.366B	176944047110001	<u>83,663</u>
Total CFDA 84.366B			<u>340,211</u>
 <i>Passed Through Texas Health and Human Services Commission:</i>			
Special Education-Grants to States	84.027	5382001567	<u>176,545</u>
Total CFDA 84.027			<u>176,545</u>

REGION I EDUCATION SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures & Indirect Cost
Special Education-Grants for Infants & Families with Disabilities	84.181	5382001567	<u>650,044</u>
Total CFDA 84.181			<u>650,044</u>
 Total Passed Through Texas Health and Human Services Commission			 <u>826,589</u>
<i>Passed Through Texas Workforce Commission:</i>			
Adult Basic Education - Federal	84.002A	2316AEL002	237,831
Adult Basic Education - Professional Development	84.002A	2316AEL002	16,498
Adult Basic Education - Civics	84.002A	2316AEL002	76,703
Adult Basic Education - Federal	84.002A	2316AELB02	1,987,327
Adult Basic Education - Professional Development	84.002A	2316AELB02	53,440
Adult Basic Education - Civics	84.002A	2316AELB02	211,470
Adult Basic Education - Federal	84.002A	2318ALA000	264,242
Adult Basic Education - Professional Development	84.002A	2316AEL002	7,216
Adult Basic Education - Civics	84.002A	2318ALA000	<u>37,930</u>
Total CFDA 84.002A			<u>2,892,658</u>
 Total Passed Through Texas Workforce Commission			 <u>2,892,658</u>
 TOTAL U.S. DEPARTMENT OF EDUCATION			 <u>18,695,014</u>
 U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
<i>Passed Through Texas Workforce Commission:</i>			
Temporary Assistance for Needy Families - Adult Education	93.558	2316AEL002	266
Temporary Assistance for Needy Families - Adult Education	93.558	2316AELB02	305,916
Temporary Assistance for Needy Families - Adult Education	93.558	2318ALA000	30,259
Temporary Assistance for Needy Families - Camp Code	93.558	2317TAN002	16,885
Temporary Assistance for Needy Families - Camp Code	93.558	2318TAN002	<u>67,064</u>
Total CFDA 93.558			<u>420,390</u>
<i>Passed Through Texas Health and Human Services Commission:</i>			
Special Education-Temporary Assistance for Needy Families	93.558	5382001567	<u>259,171</u>
Total CFDA 93.558			<u>259,171</u>
 Total CFDA 93.558			 <u>679,561</u>

REGION I EDUCATION SERVICE CENTER
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2018

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures & Indirect Cost
<i>Passed Through Texas Health and Human Services Commission:</i>			
Medicaid Administrative Claiming Program	93.778	529-11-0040-000-16	<u>315,418</u>
Total CFDA 93.778			<u>315,418</u>
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			<u>994,979</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 20,486,441</u>

REGION ONE EDUCATION SERVICE CENTER
 NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2018

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, the Trust Funds and Agency Funds. 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 fund liability is incurred, if measurable, except for unmatured interest on Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
4. The following is the reconciliation of federal revenues and the Schedule of Expenditures of Federal Awards for the year ended August 31, 2018.

Federal revenues per the Statement of Revenues,	
Expenditures and Changes in Fund Balance-	
Government Funds (Exhibit C-3)	\$ 24,648,875
Less:	
Other federal revenues	4,162,434
Federal expenditures per the Schedule of Expenditures	
of Federal Awards (Exhibit K-1)	\$ 20,486,441

(Last page.)