

**REGION ONE
EDUCATION SERVICE CENTER**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
AUGUST 31, 2017

REGION ONE EDUCATION SERVICE CENTER
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017

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CERTIFICATE OF BOARD

Region One Education Service Center
Name of District

Hidalgo
County

108-950
County District 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, 2017 at a meeting of the Board of Trustees of such school district on the 19th day of December, 2017.



Signature of Board Secretary



Signature of Board President

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PATILLO, BROWN & HILL, 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, 2017, 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, 2017, 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.

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 information on pages 38-40 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 7, 2017 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.

A handwritten signature in black ink that reads "Patricia B. Hill, CPA". The signature is written in a cursive style with a vertical line separating the name from the title.

Brownsville, Texas
December 7, 2017

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Cornelio Gonzalez, Ph.D.
Executive Director

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, 2017. Please read it in conjunction with the Center's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

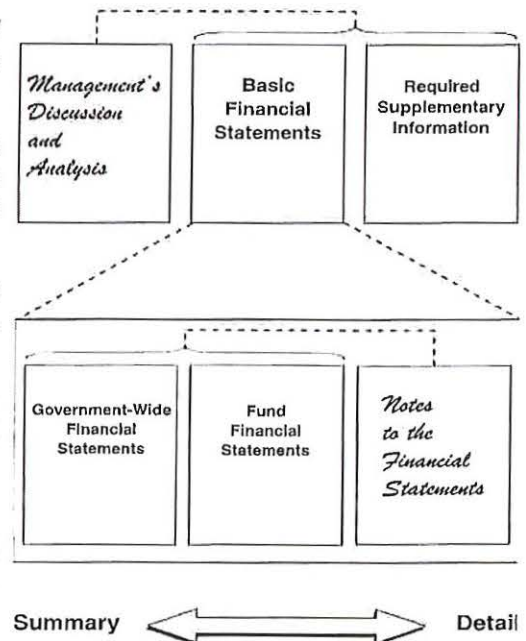
- The Center's total combined net assets were \$40,358,180 at August 31, 2017, which reflects an increase of 3.22% between fiscal years 8/31/16 and 8/31/17.
- During the year, the Center's expenses were \$1,085,542 less than the \$48,418,960 generated in local charges and other revenues for governmental activities. This is more than last year, when revenues exceeded expenses by \$101,543.
- The general fund reported an excess of revenues over expenditures this year of \$2,284,791, \$500,000 was transferred from the general fund to the construction fund which increased the fund balance this year to \$13,336,720.

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	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures & changes in fund balances	* Statement of net assets * Statement of revenues, expenses and changes in fund net assets * Statement of cash flows	* 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 increased by 1.57%, to approximately \$30,183,699 between the fiscal years 2016 and 2017 (See Table A-1).

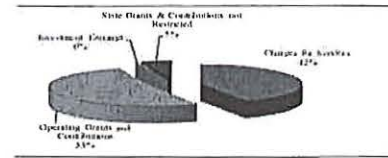
Table A-1
Region One Education Service Center's Net Assets

	Governmental Activities		Total
	2016	2017	% Change
Current Assets:			
Cash and cash equivalents	\$ 1,198,213	\$ 426,127	-64.44%
Current investments	17,178,182	19,901,792	15.86%
Due from other governments	7,335,212	7,360,892	0.35%
Other receivables	134,083	139,788	4.25%
Prepayments	423,473	-	-100.00%
Inventories-supplies	1,298	5,121	294.53%
Other current assets	403	404	0.25%
Total Current Assets	<u>26,270,864</u>	<u>27,834,124</u>	5.95%
Noncurrent Assets:			
Land	110,473	110,473	0.00%
Building	15,582,214	21,144,335	35.70%
Leased property under capital leases	5,177,406	-	-100.00%
Furniture and equipment	2,051,516	2,241,604	9.27%
Library books and media	1,395,644	1,395,614	0.00%
Less: Accumulated depreciation	<u>(11,490,025)</u>	<u>(12,368,000)</u>	7.64%
Total Noncurrent Assets	<u>12,827,228</u>	<u>12,524,056</u>	-2.36%
Total Assets	<u>39,098,092</u>	<u>40,358,180</u>	3.22%
Liabilities:			
Accounts payable and accrued liabilities	1,207,477	1,342,937	11.22%
Payroll deductions & withholdings	199,142	223,835	12.40%
Accrued Wages Payable	208,682	134,473	-35.56%
Due to other governments	2,008,263	2,437,375	21.37%
Unearned Revenue	685,959	335,867	-51.04%
Due Within One Year	78,351	78,351	0.00%
Due in More Than One Year	78,351	-	-100.00%
Net Pension Liability (District's Share)	8,987,434	9,294,223	3.41%
Total Liabilities	<u>13,453,659</u>	<u>13,847,061</u>	2.92%
Deferred Inflows of Resources			
Deferred Inflow Related to TRS	668,727	535,838	-19.87%
Total Deferred Inflows of Resources	<u>668,727</u>	<u>535,838</u>	-19.87%
Net Assets:			
Invested in capital assets, net of related debt	12,567,103	12,484,881	-0.65%
Restricted for federal and state program	1,576,659	3,018	0.00%
Restricted for capital projects	3,734,324	4,234,324	13.39%
Restricted for other purposes	7,749,451	7,687,297	-0.80%
Unrestricted net assets	4,088,486	5,774,179	41.23%
Total Net Assets	<u>\$ 29,716,023</u>	<u>\$ 30,183,699</u>	1.57%

(1) Unrestricted net assets showed a \$5.77 million surplus at the end of this year. This surplus represents an increase of 41.23% from last year's surplus and 12.00% of the Center's operating budget. The \$5,774,179 of unrestricted net assets represents resources available to fund the programs of the Center for next year.

Changes in net assets. The Center's total revenues increased by 10.49% to \$48,567,879. A significant portion, 52.34%, of the Center's revenue comes from operating grants. (See Figure A-3.) 4.77% comes from ESC state-grants not restricted, while 42.60% relates to charges for services.

The total cost of all programs and services increased 7.54% to \$48,100,203. The instruction and instructional related services and student services functions represent 60% of these costs.



Governmental Activities

- Investment earnings increased by approximately 104.49% due to an increased in the interest rate. Charges for services increased by 11.83% from \$18,408,259 to \$20,585,703 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 20.82% from \$2,911,252 to \$2,305,226. The state aid – formula grants represent state funds received for Center operations.
- Operating grants and contributions represent federal and state funds restricted for a specific program. The Center obtained approximately \$2,984,228 more federal and state grants as compared to last year. The increase in operating grants and contributions of 13.38% is due an increase in grant allocations, primarily the Project Rise and Project Heal2 Grants. Over all, funds received for center operations increased by 10.49%.

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

	Governmental Activities		Total
	2016	2017	% Change
Program Revenues:			
Charges for services	\$ 18,408,260	\$ 20,585,703	11.83%
Operating grants and contributions	22,305,497	25,289,725	13.38%
Grants and contributions not restricted	2,911,252	2,305,226	-20.82%
Investment earnings	67,100	137,213	104.49%
State aid - formula grants	263,375	250,012	-5.07%
Miscellaneous local and intermediate revenue	-	-	
Total Revenues	43,955,484	48,567,879	10.49%
Program Expenses:			
Instruction	13,932,818	15,130,582	8.60%
Instructional resources media services	1,310,146	1,330,975	1.59%
Curriculum dev. and instructional staff dev.	11,619,304	12,425,349	6.94%
Instructional leadership	2,104,465	2,330,020	10.72%
School leadership	731,354	779,636	6.60%
Guidance, counseling, and evaluation services	7,938	7,843	-1.20%
Student (pupil)	166	156	-6.02%
General administration	2,200,316	2,492,136	13.26%
Plant and maintenance	1,692,033	1,559,604	-7.83%
Security and monitoring	35,297	33,072	-6.30%
Data processing services	3,543,744	3,722,047	5.03%
Community services	227,159	305,924	34.67%
School district administrative support	4,405,970	4,622,009	4.90%

	<u>2016</u>	<u>2017</u>	
Debt service	15,601	-	-100.00%
Capital Outlay	-	62,112	100.00%
Payments to fiscal agent/member dist.-SSA	<u>2,900,366</u>	<u>3,298,739</u>	13.74%
Total Expenditures	<u>44,726,677</u>	<u>48,100,203</u>	7.54%
Increase (Decrease) in Net Assets	<u>\$ (771,193)</u>	<u>\$ 467,676</u>	-160.64%

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 increased by 7.54% this year ending at \$48,100,203. Some of the cost was paid by those who directly benefited from the programs \$20,585,703 or by grants and contributions totaling \$25,289,725.

Table A-3
Net Cost of Selected Center's Functions

	Total Cost of Services		Total
	<u>2016</u>	<u>2017</u>	<u>% Change</u>
Instruction	\$13,932,818	\$15,130,582	8.60%
Instructional Resources and Media Services	1,310,146	1,330,975	1.59%
Curriculum Dev. And Instructional Staff Dev.	11,619,304	12,425,349	6.94%
Instructional Leadership	2,104,465	2,330,020	10.72%
General Administration	2,200,316	2,492,136	13.26%
Plant Maintenance & Operations	1,692,033	1,559,604	-7.83%
Data Processing Services	3,543,744	3,722,047	5.03%
School District Administration Support (ESC only)	4,405,970	4,622,009	4.90%

FINANCIAL ANALYSIS OF THE CENTER'S FUNDS

Revenues from governmental fund types totaled \$48,418,960, an increase of 11.13% over the preceding year. The increase in local revenues is primarily a result of an increase in revenues in substitute service program. The increase in operating grants and contributions of 13.38% is due an increase in grant allocations, primarily the Project Rise and Project Heal2 Grants. Expenditures from governmental fund types totaled \$47,333,418 an increase of 8.89% over the preceding year. The increase in the Instruction function of more than \$1 million is mainly due to an increase in the SUBHUB program.

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 \$2,142,710 below final budget amounts. Some local programs expended less than appropriations. On the other hand, resources available were \$231,406 over the final budgeted amount.

CAPITAL ASSETS

At the end of 2017, the Center had invested \$24,892,055 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents an increase of \$574,803 or 2.36% over last year. The center disposed of equipment through auction and other allowable methods.

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

	<u>Governmental Activities</u>		<u>Total</u>
	<u>2016</u>	<u>2017</u>	<u>% Change</u>
Land	\$ 110,473	\$ 110,473	0.00%
Buildings and improvements	15,582,214	21,144,335	35.70%
Capital leases	5,177,406	-	-100.00%
Equipment	2,051,516	2,241,604	9.27%
Library books & media	<u>1,395,644</u>	<u>1,395,644</u>	0.00%
Totals at historic cost	<u>24,317,253</u>	<u>24,892,056</u>	2.36%
Total accumulated depreciation	<u>(11,490,025)</u>	<u>(12,368,000)</u>	7.64%
Net capital assets	<u>\$ 12,827,228</u>	<u>\$ 12,524,056</u>	-2.36%

The Center's fiscal year 2016-17 capital budget projects has earmarked for construction an additional \$500,000 from the General Fund and \$590,000 from an Internal Service Fund; principally for the purchase and renovations of the Laredo satellite office and for improvements to the Edinburg building. The Lone Star National Bank loan to refinance the lease agreement on June 15, 2009 for construction improvements has been paid, and the capital leases have been reclassified primarily to building and improvements. 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 2017-2018.

These indicators were taken into account when adopting the general fund budget for 2018. Amounts available for appropriation in the general fund budget are \$23,215,082 a decrease of 2.38% under the final 2017 budget of \$23,781,816. The original budget for 2017-18 represents very conservative figures.

Expenditures are budgeted to decrease by 1.95% to \$23,406,085. 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 2018.

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

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REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF NET POSITION
AUGUST 31, 2017

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 426,127
1120 Current Investments	19,901,792
1240 Due from Other Governments	7,360,892
1290 Other Receivables, net	139,788
1300 Inventories	5,121
1490 Other Current Assets	404
Capital Assets:	
1510 Land	110,473
1520 Buildings, Net	10,639,679
1530 Furniture and Equipment, Net	378,260
1560 Library Books and Media, Net	1,395,644
1000 Total Assets	40,358,180
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	4,208,418
1700 Total Deferred Outflows of Resources	4,208,418
LIABILITIES	
2110 Accounts Payable	1,342,937
2150 Payroll Deductions & Withholdings	223,835
2160 Accrued Wages Payable	134,473
2180 Due to Other Governments	2,437,375
2300 Unearned Revenue	335,867
Noncurrent Liabilities	
2501 Due Within One Year	78,351
2540 Net Pension Liability (District's Share)	9,294,223
2000 Total Liabilities	13,847,061
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	535,838
2600 Total Deferred Inflows of Resources	535,838
NET POSITION	
3200 Net Investment in Capital Assets	12,484,881
3820 Restricted for Federal and State Programs	3,018
3860 Restricted for Capital Projects	4,234,324
3890 Restricted for Other Purposes	7,687,297
3900 Unrestricted	5,774,179
3000 Total Net Position	\$ 30,183,699

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

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REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 15,130,582	\$ 6,422,985	\$ 8,345,184	\$ (362,413)
12 Instructional Resources and Media Services	1,330,975	1,130,669	10,473	(189,833)
13 Curriculum and Staff Development	12,425,349	4,503,926	7,383,078	(538,345)
21 Instructional Leadership	2,330,020	456,180	1,788,715	(85,125)
23 School Leadership	779,636	-	741,936	(37,700)
31 Guidance, Counseling and Evaluation Services	7,843	-	7,843	-
34 Student (Pupil) Transportation	156	-	-	(156)
41 General Administration	2,492,136	2,261,339	126,232	(104,565)
51 Facilities Maintenance and Operations	1,559,604	918,577	842,359	201,332
52 Security and Monitoring Services	33,072	-	-	(33,072)
53 Data Processing Services	3,722,047	2,442,243	526,640	(753,164)
61 Community Services	305,924	-	231,729	(74,195)
62 School District Administrative Support (ESC)	4,622,009	2,449,784	1,986,797	(185,428)
81 Capital Outlay	62,112	-	-	(62,112)
93 Payments related to Shared Services Arrangements	3,298,739	-	3,298,739	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 48,100,203	\$ 20,585,703	\$ 25,289,725	(2,224,775)

Data Control Codes	General Revenues:	
	Taxes:	
SF	State Aid - Formula Grants	250,012
GC	Grants and Contributions not Restricted	2,305,226
IE	Investment Earnings	137,213
TR	Total General Revenues	2,692,451
CN	Change in Net Position	467,676
NB	Net Position - Beginning	29,716,023
NE	Net Position--Ending	\$ 30,183,699

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

REGION ONE EDUCATION SERVICE CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	Gear Up	Project Rise
ASSETS			
1110 Cash and Cash Equivalents	\$ 159,676	\$ -	\$ -
1120 Investments - Current	10,301,792	-	-
1240 Receivables from Other Governments	882,227	1,703,479	1,042,810
1260 Due from Other Funds	3,155,447	-	-
1290 Other Receivables	130,052	-	-
1000 Total Assets	<u>\$ 14,629,194</u>	<u>\$ 1,703,479</u>	<u>\$ 1,042,810</u>
LIABILITIES			
2110 Accounts Payable	\$ 308,087	\$ 157,227	\$ 100,950
2150 Payroll Deductions and Withholdings Payable	223,835	-	-
2160 Accrued Wages Payable	98,362	-	-
2170 Due to Other Funds	265,329	565,901	210,826
2180 Due to Other Governments	142,704	980,351	731,034
2300 Unearned Revenues	254,157	-	-
2000 Total Liabilities	<u>1,292,474</u>	<u>1,703,479</u>	<u>1,042,810</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3490 Other Restricted Fund Balance	1,043,019	-	-
Committed Fund Balance:			
3510 Construction	1,000,000	-	-
3545 Other Committed Fund Balance	6,641,800	-	-
3600 Unassigned Fund Balance	4,651,901	-	-
3000 Total Fund Balances	<u>13,336,720</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 14,629,194</u>	<u>\$ 1,703,479</u>	<u>\$ 1,042,810</u>

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

EXHIBIT C-1

Appraisal Training & Development	ECI State	60 Capital Projects	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ 47,203	\$ 195,159	\$ 402,038
-	-	3,700,000	750,000	14,751,792
890,273	413,251	-	2,055,208	6,987,248
-	-	-	11,834	3,167,281
8,536	-	-	400	138,988
<u>\$ 898,809</u>	<u>\$ 413,251</u>	<u>\$ 3,747,203</u>	<u>\$ 3,012,601</u>	<u>\$ 25,447,347</u>
\$ 187,722	\$ 85,783	\$ -	\$ 263,167	\$ 1,102,936
-	-	-	-	223,835
-	-	-	36,111	134,473
420,634	218,822	10,000	1,492,670	3,184,182
246,250	108,646	-	219,420	2,428,405
44,203	-	-	36,702	335,062
<u>898,809</u>	<u>413,251</u>	<u>10,000</u>	<u>2,048,070</u>	<u>7,408,893</u>
-	-	-	964,531	964,531
-	-	-	-	1,043,019
-	-	3,737,203	-	4,737,203
-	-	-	-	6,641,800
-	-	-	-	4,651,901
<u>-</u>	<u>-</u>	<u>3,737,203</u>	<u>964,531</u>	<u>18,038,454</u>
<u>\$ 898,809</u>	<u>\$ 413,251</u>	<u>\$ 3,747,203</u>	<u>\$ 3,012,601</u>	<u>\$ 25,447,347</u>

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REGION ONE EDUCATION SERVICE CENTER
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 AUGUST 31, 2017

Total Fund Balances - Governmental Funds	\$	18,038,454
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.		5,504,421
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 \$24,317,252 and the accumulated depreciation was (\$11,490,025). In addition, long-term liabilities, including capital leases payable, 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 in the governmental activities is to decrease net position.		12,670,526
3 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 including the 2017 capital outlays and debt principal payments is to decrease net position.		695,106
4 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 \$4,208,418, a deferred resource inflow in the amount of \$535,838, and a net pension liability in the amount of \$9,294,223.		(5,621,643)
5 The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		919,926
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		(2,023,091)
19 Net Position of Governmental Activities	<u>\$</u>	<u>30,183,699</u>

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 BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	Gear Up	Project Rise
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 20,064,040	\$ -	\$ -
5800 State Program Revenues	2,909,236	-	-
5900 Federal Program Revenues	1,039,946	6,249,011	1,743,956
5020 Total Revenues	<u>24,013,222</u>	<u>6,249,011</u>	<u>1,743,956</u>
EXPENDITURES:			
Current:			
0011 Instruction	7,110,807	1,487,708	-
0012 Instructional Resources and Media Services	1,288,822	-	-
0013 Curriculum and Instructional Staff Development	4,208,803	1,826,397	872,388
0021 Instructional Leadership	389,249	151,698	204,413
0023 School Leadership	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-
0041 General Administration	2,423,597	-	-
0051 Facilities Maintenance and Operations	823,246	69,876	27,569
0053 Data Processing Services	2,701,219	26,966	5,404
0061 Community Services	29,562	95,717	-
0062 School District Administrative Support (ESC Only)	2,713,950	-	-
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	-	2,590,649	634,182
6030 Total Expenditures	<u>21,728,431</u>	<u>6,249,011</u>	<u>1,743,956</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,284,791</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	(500,000)	-	-
7080 Total Other Financing Sources (Uses)	<u>(500,000)</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	1,784,791	-	-
0100 Fund Balance - September 1 (Beginning)	<u>11,551,929</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 13,336,720</u>	<u>\$ -</u>	<u>\$ -</u>

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

State Funded Special Revenue Funds	ECI State	60 Capital Projects	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 658,876	\$ 20,722,916
1,203,082	427,860	-	329,125	4,869,303
-	4,692,706	-	9,101,122	22,826,741
1,203,082	5,120,566	-	10,089,123	48,418,960
-	3,978,586	-	2,227,847	14,804,948
-	-	-	-	1,288,822
1,070,768	10,388	-	4,142,616	12,131,360
-	863,952	-	634,861	2,244,173
-	-	-	741,936	741,936
-	-	-	7,843	7,843
-	-	-	-	2,423,597
5,564	158,050	-	679,934	1,764,239
2,198	109,590	-	294,550	3,139,927
18,060	-	-	120,399	263,738
106,492	-	-	1,777,357	4,597,799
-	-	-	-	39,176
-	-	587,121	-	587,121
-	-	-	73,908	3,298,739
1,203,082	5,120,566	587,121	10,701,251	47,333,418
-	-	(587,121)	(612,128)	1,085,542
-	-	1,090,000	224,813	1,314,813
-	-	-	(224,813)	(724,813)
-	-	1,090,000	-	590,000
-	-	502,879	(612,128)	1,675,542
-	-	3,234,324	1,576,659	16,362,912
\$ -	\$ -	\$ 3,737,203	\$ 964,531	\$ 18,038,454

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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, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	1,675,542
 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.		(280,481)
 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 2017 capital outlays and debt principal payments is to decrease net position.		695,106
 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.		(919,926)
 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.		3,234
 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 \$861,178. 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 \$781,457. 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 \$775,520. the net result is an increase or a (decrease) in the change in position.		(705,799)
 Change in Net Position of Governmental Activities	\$	467,676

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

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REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2017

	Governmental Activities -
	Total Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 24,089
Investments - Current	5,150,000
Due from Other Governments	373,644
Due from Other Funds	80,506
Other Receivables	800
Inventories	5,121
Other Current Assets	404
Total Current Assets	<u>5,634,564</u>
Noncurrent Assets:	
Capital Assets:	
Buildings and Improvements	85,813
Furniture and Equipment	483,506
Depreciation on Furniture and Equipment	(481,163)
Leased Property Under Capital Leases	134,255
Total Noncurrent Assets	<u>222,411</u>
Total Assets	<u>5,856,975</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	240,000
Due to Other Funds	63,604
Due to Other Governments	8,970
Unearned Revenues	805
Total Current Liabilities	<u>313,379</u>
Noncurrent Liabilities:	
Other Long-Term Debt - Due in More than One Year	39,175
Total Noncurrent Liabilities	<u>39,175</u>
Total Liabilities	<u>352,554</u>
NET POSITION	
Unrestricted Net Position	<u>5,504,421</u>
Total Net Position	<u>\$ 5,504,421</u>

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

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REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Governmental Activities -
	Total Internal Service Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 3,637,600
Total Operating Revenues	<u>3,637,600</u>
OPERATING EXPENSES:	
Payroll Costs	951,014
Professional and Contracted Services	1,819,974
Supplies and Materials	393,387
Other Operating Costs	104,566
Depreciation Expense	59,140
Total Operating Expenses	<u>3,328,081</u>
Income Before Transfers	309,519
Transfers Out	<u>(590,000)</u>
Change in Net Position	(280,481)
Total Net Position - September 1 (Beginning)	<u>5,784,902</u>
Total Net Position - August 31 (Ending)	<u>\$ 5,504,421</u>

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

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REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 3,678,602
Cash Received from Assessments - Other Funds	333,059
Cash Payments to Employees for Services	(951,016)
Cash Payments for Contracted Services	(1,819,974)
Cash Payments for Suppliers	(430,103)
Cash Payments for Other Operating Expenses	(104,566)
Cash Payment for Debt Service	(39,175)
Net Cash Provided by Operating Activities	<u>666,827</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(590,000)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(16,729)</u>
Net Increase in Cash and Cash Equivalents	60,098
Cash and Cash Equivalents at Beginning of Year	<u>5,113,991</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,174,089</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 309,519
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	(13,014)
Decrease (Increase) in Due from Other Funds	314,494
Decrease (Increase) in Other Receivables	(800)
Decrease (Increase) in Inventories	(3,823)
Increase (Decrease) in Accounts Payable	(32,893)
Increase (Decrease) in Non-current Liabilities	(39,175)
Decrease (Increase) in Due to Other Governments	8,970
Decrease (Increase) in Due to Other Funds	63,604
Decrease (Increase) In Unearned Revenue	805
Net Cash Provided by Operating Activities	<u>\$ 666,827</u>

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

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REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017

	Private Purpose Trust Fund
ASSETS	
Cash and Cash Equivalents	\$ 89,072
Due from Other Governments	1,800
Other Receivables	750
Total Assets	<u>91,622</u>
LIABILITIES	
Accounts Payable	4,265
Due to Student Groups	87,357
Total Liabilities	<u>\$ 91,622</u>

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

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REGION ONE EDUCATION SERVICE CENTER
 STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2017

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 52,260
Total Additions	<u>52,260</u>
DEDUCTIONS:	
Professional and Contracted Services	40,952
Supplies and Materials	5,264
Other Operating Costs	6,044
Total Deductions	<u>52,260</u>
Change in Net Position	-
Total Net Position - September 1 (Beginning)	<u>-</u>
Total Net Position - August 31 (Ending)	<u><u>\$ -</u></u>

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

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**REGION ONE EDUCATION SERVICE CENTER
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017**

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.

As of August 31, 2017, 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.

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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).

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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the Center to refund all or part of the unused amount.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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. *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.
4. *State Funded Special Revenue Funds* - accounts for resources accumulated and expenditures incurred for multiple grants assigned to this special fund.
5. *Early Childhood Intervention* - is used to account for resources 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.

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. Normally, unused balances are returned to the grantor at the close of specified project periods.
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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. BASIS OF PRESENTATION - FUND ACCOUNTING

Proprietary Fund:

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 two years. 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:

<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:

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. OTHER ACCOUNTING POLICIES

- 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.
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.

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

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. OTHER ACCOUNTING POLICIES

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 (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. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including capital leases payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of Year</u>	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of Year	Change in Net Position
Land	\$ 110,473	\$ -	\$ 110,473	
Buildings & Improvements	15,582,214	(6,427,925)	9,154,289	
Furniture & Equipment	2,051,516	(1,524,934)	526,582	
Capital Leases	5,177,406	(3,537,166)	1,640,240	
Library Books & Media	1,395,644	-	1,395,644	
Change in Net Position				<u>\$ 12,827,228</u>
<u>Long -Term Liabilities at the Beginning of Year</u>			<u>Payable at the Beginning of Year</u>	
Capital Leases			(156,702)	
Change in Net Position				<u>(156,702)</u>
Net Adjustment to Net Position				<u>\$ 12,670,526</u>

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

B. EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position. The details of this adjustment are as follows:

Current Year Capital Outlay	Amount	Adjustments to Changes in Net Position	Adjustments in Net Position
Buildings & Improvements	\$ 587,121	\$ 587,121	
Furniture & Equipment	29,633	29,633	
Total Capital Outlay			\$ 616,754
<u>Debt Principal Payments</u>			
Capital Lease Payments	78,352	78,352	
Total Principal Payments	78,352	78,352	78,352
Net Adjustment to Net Position			<u>\$ 695,106</u>

III. 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.
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.

IV. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The funds of the Center must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the Center's agent bank in an amount sufficient to protect Center funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2017, the carrying amount of the Center's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$426,127 and the bank balance was \$753,187. The Center's cash deposits at August 31, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the Center's agent bank in the Center's name.

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 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 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 a deposit. At year-end, the Center was not exposed to foreign currency risk.

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 the Center 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 Center to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the Center to have independent auditors perform test procedures related to investment practices as provided by the Act. The Center is in substantial compliance with the requirements of the Act and with local policies.

The Center's temporary investments at August 31, 2017, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More Than 10</u>
TexPool	\$ 1,551,977	\$ 1,551,977	\$ -	\$ -	\$ -
Texas Class Investment	1,209,801	1,209,801	-	-	-
Lone Star NOW Public Fund	17,140,015	17,140,015	-	-	-
Total	<u>\$ 19,901,792</u>	<u>\$ 19,901,792</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

IV. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

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 equivalent. As of August 31, 2017, 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 Risk for Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by third parties were fully collateralized and held in the Center’s name.

Concentration of Credit Risk – The investment portfolio is diversified in terms of investment instruments and maturity scheduling to reduce risk of loss resulting from over concentration of assets in specific class of investments, specific maturity or specific issuer. As of August 31, 2017, the Center had 86% of its investments in an investment account in its depository bank, Lone Star National Bank. These investments were fully covered by eligible pledged securities. The Center had 14% of its investments in investment pools rated AAAM as noted above.

Interest Rate Risk – In accordance with state law and the Center’s investment policy, the Center does not purchase any investments greater than five (5) years for its operating funds.

Foreign Currency Risk for Investments – The Center 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.

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, 2017, 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	\$ 84,597	\$ -	\$ 797,630	\$ 882,227
Special Revenue	1,835,615	3,041,331	1,228,075	6,105,021
Internal Service	-	-	373,644	373,644
Total	<u>\$ 1,920,212</u>	<u>\$ 3,041,331</u>	<u>\$ 2,399,349</u>	<u>\$ 7,360,892</u>

IV. **DETAILED NOTES ON ALL FUNDS**

C. **INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at August 31, 2017 consisted of the following individual fund balances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	NonMajor General Funds	\$ 236,593
General Fund	Special Revenue Funds	2,908,854
Special Revenue Funds	General Fund	11,834
General Fund	Capital Projects Fund	10,000
Internal Service Funds	Internal Service Funds	63,604
Internal Service Funds	General Fund	16,902
Total		<u>\$ 3,247,787</u>

The entire balance of \$3,247,787 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>
Capital Projects Fund	General Fund	\$ 500,000	Construction
Capital Projects Fund	Internal Service Fund	\$ 590,000	Construction
Other Nonmajor Funds	Other Nonmajor Funds	224,813	Operating Costs
	Total	<u>\$ 1,314,813</u>	

D. **ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

As of August 31, 2017, 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 \$130,052 with no allowance at year end.

E. **CAPITAL ASSET ACTIVITY**

Capital asset activity for the Center for the year ended August 31, 2017, was as follows:

	Balance		Changes During Year			Balance
	9/1/2016	Additions	Retirements	Reclassifications/ Adjustments	8/31/2017	
Governmental Activities:						
Land	\$ 110,473	\$ -	\$ -	\$ -	\$ 110,473	
Buildings & Improvements	15,582,214	587,121	-	4,975,000	21,144,335	
Furniture & Equipment	2,051,516	29,633	(41,951)	202,406	2,241,604	
Capital Leases	5,177,406	-	-	(5,177,406)	-	
Library Books & Media	1,395,644	-	-	-	1,395,644	
Totals at Historic Cost	<u>24,317,252</u>	<u>616,754</u>	<u>(41,951)</u>	<u>-</u>	<u>24,892,054</u>	
Less Accumulated Depreciation:						
Buildings & Improvements	(6,427,924)	(594,232)	-	(3,482,500)	(10,504,656)	
Furniture & Equipment	(1,524,933)	(83,935)	41,951	(296,427)	(1,863,344)	
Capital Leases	(3,537,168)	(241,759)	-	3,778,927	-	
Total Accumulated Depreciation	<u>(11,490,025)</u>	<u>(919,926)</u>	<u>41,951</u>	<u>-</u>	<u>(12,368,000)</u>	
Governmental Activities						
Capital Assets, Net	<u>\$ 12,827,227</u>	<u>\$ (303,173)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,524,055</u>	

IV. DETAILED NOTES ON ALL FUNDS

E. CAPITAL ASSET ACTIVITY

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,932
Instructional Resources & Media Services	41,946
Curriculum & Instructional Staff Development	90,943
Instructional Leadership	14,560
Student (Pupil) Transportation	166
General Administration	38,982
Plant Maintenance & Operations	313,249
Security and Monitoring Services	35,297
Data Processing Services	187,081
Community Services	43,163
School District Administrative Support (ESC only)	63,278
Facilities Acquisition and Construction	30,190
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>\$ 919,926</u>

F. CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities for the Center for the year ended August 31, 2017, was as follows:

<u>Purpose</u>	<u>Amount of Original Issue</u>	<u>Interest Rate</u>	<u>Balance 9/1/2016</u>	<u>Principal Issued</u>	<u>Principal Retired</u>	<u>Balance 8/31/2017</u>	<u>Due Within One Year</u>
<u>Capital Lease</u>							
SHI Government Solutions	\$ 235,054	0.00%	<u>\$ 156,702</u>	<u>\$ -</u>	<u>\$ (78,352)</u>	<u>\$ 78,351</u>	<u>\$ 78,351</u>
Total Long-Term Liabilities			<u>\$ 156,702</u>	<u>\$ -</u>	<u>\$ (78,352)</u>	<u>\$ 78,351</u>	<u>\$ 78,351</u>

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, 2017, 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.

IV. DETAILED NOTES ON ALL FUNDS

G. COMMITMENTS UNDER LEASES

Management has indicated that the Center is in compliance with all significant limitations and restrictions. Commitments under capitalized lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2017, are as follows:

<u>Year Ending</u> <u>August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 78,351	\$ -	\$ 78,351
Totals	<u>\$ 78,351</u>	<u>\$ -</u>	<u>\$ 78,351</u>

Operating (Noncapitalized) Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2017, are as follows:

<u>Year ending</u> <u>August 31,</u>	
2018	\$ 120,735
2019	118,400
2020	<u>54,400</u>
Total Minimum Rentals	<u>\$ 293,535</u>

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 collectibility 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.

J. HEALTH CARE COVERAGE

During the year ended August 31, 2017, employees of the Center were covered by a health insurance plan (the "Plan"). The Center paid premiums of \$532.58 per month per full-time employee, \$170 and \$150 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.

IV. DETAILED NOTES ON ALL FUNDS

K. **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 replacement cost and each vehicle carries property damage and medical liability insurance as required by state law. All employees are bonded for \$100,000 each under blanket coverage. Premiums, although covering periods extending into subsequent years, are recorded as expenditures at the time of purchase.

L. **DEFINED PENSION PLAN**

Plan Description. The 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). TRS's defined benefit pension plan is 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 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 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 in (A) 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.

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. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2015 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

IV. DETAILED NOTES ON ALL FUNDS

L. DEFINED PENSION PLAN

	<u>Contribution Rates</u>	
	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2017 Employer Contributions		\$ 851,178
2017 Member Contributions		\$ 1,736,154
2016 NECE On-Behalf Contributions		\$ 961,046

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.

In addition to the employer contributions listed above, 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.

Actuarial Assumptions. The total pension liability in the August 31, 2016, actuarial valuation was determined using the following actuarial assumptions:

IV. DETAILED NOTES ON ALL FUNDS

L. **DEFINED PENSION PLAN**

Valuation Date	8/31/2016
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Market Value
Single Discount Rate	8.00%
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, 2016 are summarized below:

IV. DETAILED NOTES ON ALL FUNDS

L. DEFINED PENSION PLAN

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 2016 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:	\$ 14,384,326	\$ 9,294,223	\$ 4,976,786

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, the Center reported a liability of \$9,294,223 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	\$9,294,223
State's proportionate share that is associated with the Center	<u>11,407,472</u>
Total	<u>\$ 20,701,695</u>

IV. DETAILED NOTES ON ALL FUNDS

L. **DEFINED PENSION PLAN**

The net pension liability was measured as of August 31, 2016 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, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0245954% which was an increase (decrease) of -0.0008297% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation. There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the 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, 2017, the Center recognized pension expense of \$1,183,824 and revenue of \$1,183,824 for support provided by the State.

At August 31, 2017, 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	\$ 145,732	\$ 277,520
Changes in actuarial assumptions	283,271	257,623
Differences between projected and actual investment earnings	787,015	
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	2,141,222	695
Total as of August 31, 2016 measurement date	3,357,240	535,838
Contributions paid to TRS subsequent to the measurement date	851,178	-
Total	<u>\$ 4,208,418</u>	<u>\$ 535,838</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 Amount</u>
2018	\$ 504,789
2019	504,789
2020	1,006,786
2021	466,216
2022	307,654
Thereafter	31,168

IV. DETAILED NOTES ON ALL FUNDS

M. RETIREE HEALTH PLAN

Plan Description. The Center contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded 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. State law provides for a member contribution rate of 7.7% for fiscal year 2017, 7.2% for fiscal year 2016, 6.7% for fiscal year 2015, and a state contribution rate of 6.8% for fiscal years 2014-2017, and 6.4% for fiscal year 2013. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school Center payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2017.

State contributions to TRS made on behalf of the Center's employees for the years ended August 31, 2017, 2016, and 2015 were \$1,370,874, \$1,263,941 and \$1,034,626 respectively.

Medicare Part D. 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. GASB Statement No. 24 requires recognition of these on-behalf payments in the financial statements. Medicare Part D payments made on-behalf of the Center's participants for the years ended August 31, 2017, 2016 and 2015 were \$78,572, \$92,351, and \$59,600 respectively.

N. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2017, the Center had no liability for accrued sick leave or vacation leave.

O. 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.

IV. DETAILED NOTES ON ALL FUNDS

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	-	1,929
108804	Mid-Valley Academy	4,522	2,806
108914	La Villa ISD	-	3,086
124901	Jim Hogg ISD	-	1,415
214902	San Isidro ISD	-	1,929
240801	Gateway Academy	3,779	1,929
240904	Webb CONS ISD	-	2,190
245901	Lasara ISD	-	-
245904	San Perlita ISD	-	-
		<u>\$ 8,301</u>	<u>\$ 15,284</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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REGION ONE EDUCATION SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2017

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	\$ 20,772,605	\$ 21,141,254	\$ 20,064,040	\$ (1,077,214)
5800	State Program Revenues	1,790,562	1,790,562	2,909,236	1,118,674
5900	Federal Program Revenues	850,000	850,000	1,039,946	189,946
5020	Total Revenues	23,413,167	23,781,816	24,013,222	231,406
EXPENDITURES:					
Current:					
0011	Instruction	7,618,112	7,540,160	7,110,807	429,353
0012	Instructional Resources and Media Services	1,116,180	1,302,264	1,288,822	13,442
0013	Curriculum and Instructional Staff Development	4,550,055	4,621,061	4,208,803	412,258
0021	Instructional Leadership	470,710	409,682	389,249	20,433
0041	General Administration	2,342,690	2,473,462	2,423,597	49,865
0051	Facilities Maintenance and Operations	854,470	842,989	823,246	19,743
0053	Data Processing Services	2,827,104	2,876,659	2,701,219	175,440
0061	Community Services	18,500	45,950	29,562	16,388
0062	School District Administrative Support (ESC Only)	3,615,346	3,719,738	2,713,950	1,005,788
Debt Service:					
0071	Principal on Long Term Debt	-	39,176	39,176	-
6030	Total Expenditures	23,413,167	23,871,141	21,728,431	2,142,710
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(89,325)	2,284,791	2,374,116
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(500,000)	(500,000)	(500,000)	-
1200	Net Change in Fund Balances	(500,000)	(589,325)	1,784,791	2,374,116
0100	Fund Balance - September 1 (Beginning)	11,551,929	11,551,929	11,551,929	-
3000	Fund Balance - August 31 (Ending)	\$ 11,051,929	\$ 10,962,604	\$ 13,336,720	\$ 2,374,116

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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, 2017

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability (Asset)	0.0245954%	0.0254251%	0.014951%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 9,294,223	\$ 8,987,434	\$ 3,993,619
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	1,140,472	9,336,464	7,143,012
Total	<u>\$ 10,434,695</u>	<u>\$ 18,323,898</u>	<u>\$ 11,136,631</u>
District's Covered-Employee Payroll	\$ -0-	\$ -0-	\$ -0-
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	45.08%	49.03%	21.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: In accordance with GASB 68, Paragraph 138, only three 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."

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REGION ONE EDUCATION SERVICE CENTER
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2017

EXHIBIT G-3

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

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "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
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2017

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	220 Adult Education Federal
ASSETS			
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ -
1120 Investments - Current	-	-	-
1240 Receivables from Other Governments	36,449	212,167	215,973
1260 Due from Other Funds	-	-	11,834
1290 Other Receivables	-	-	-
1000 Total Assets	<u>\$ 36,449</u>	<u>\$ 212,167</u>	<u>\$ 227,807</u>
LIABILITIES			
2110 Accounts Payable	\$ 350	\$ 24,221	\$ 23,958
2160 Accrued Wages Payable	-	-	29,972
2170 Due to Other Funds	36,099	185,647	161,868
2180 Due to Other Governments	-	2,299	175
2300 Unearned Revenues	-	-	11,834
2000 Total Liabilities	<u>36,449</u>	<u>212,167</u>	<u>227,807</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>\$ 36,449</u>	<u>\$ 212,167</u>	<u>\$ 227,807</u>

EXHIBIT H-1 (Cont'd)

223 TANF Family Assistance	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary	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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
105,093	61,701	427,426	208,830	24,112	64,180	18,853	132,521
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 105,093</u>	<u>\$ 61,701</u>	<u>\$ 427,426</u>	<u>\$ 208,830</u>	<u>\$ 24,112</u>	<u>\$ 64,180</u>	<u>\$ 18,853</u>	<u>\$ 132,521</u>
\$ 578	\$ 3,087	\$ 29,224	\$ 24,995	\$ 330	\$ 7,000	\$ -	\$ 35,300
6,139	-	-	-	-	-	-	-
83,028	58,097	381,863	178,016	23,782	49,965	18,853	96,021
15,348	517	16,339	5,819	-	7,215	-	1,200
-	-	-	-	-	-	-	-
<u>105,093</u>	<u>61,701</u>	<u>427,426</u>	<u>208,830</u>	<u>24,112</u>	<u>64,180</u>	<u>18,853</u>	<u>132,521</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 105,093</u>	<u>\$ 61,701</u>	<u>\$ 427,426</u>	<u>\$ 208,830</u>	<u>\$ 24,112</u>	<u>\$ 64,180</u>	<u>\$ 18,853</u>	<u>\$ 132,521</u>

REGION ONE EDUCATION SERVICE CENTER
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2017

Data Control Codes	288 Special Revenue	289 Other Federal Special Revenue Funds	301 SSA ESEA I, C Migrant	342 SSA - ESEA Title II,A Training
ASSETS				
1110	\$ -	\$ -	\$ -	\$ -
1120	-	-	-	-
1240	236,851	81,478	8,780	21,695
1260	-	-	-	-
1290	-	-	-	-
1000	<u>\$ 236,851</u>	<u>\$ 81,478</u>	<u>\$ 8,780</u>	<u>\$ 21,695</u>
LIABILITIES				
2110	\$ 60,196	\$ 17,752	\$ -	\$ 20,591
2160	-	-	-	-
2170	40,715	45,944	-	1,104
2180	135,940	17,782	8,780	-
2300	-	-	-	-
2000	<u>236,851</u>	<u>81,478</u>	<u>8,780</u>	<u>21,695</u>
FUND BALANCES				
Restricted Fund Balance:				
3450	-	-	-	-
3000	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<u>\$ 236,851</u>	<u>\$ 81,478</u>	<u>\$ 8,780</u>	<u>\$ 21,695</u>

EXHIBIT H-1 (Cont'd)

350 SSA - III, A English Lang. Acquisition	385 Visually Impaired SSVI	405 ESC Gifted and Talented	482 Special Revenue Local Program	483 T-STEM Training	490 Chapter 41	491 STAAR One Item Bank
\$ -	\$ -	\$ -	\$ 40,213	\$ 48,484	\$ 24,104	\$ 20,077
-	-	-	-	150,000	600,000	-
18,774	129,028	1,488	-	15,018	-	4,791
-	-	-	-	-	-	-
-	-	-	-	400	-	-
<u>\$ 18,774</u>	<u>\$ 129,028</u>	<u>\$ 1,488</u>	<u>\$ 40,213</u>	<u>\$ 213,902</u>	<u>\$ 624,104</u>	<u>\$ 24,868</u>
\$ 4,172	\$ 5,444	\$ -	\$ -	\$ 2,272	\$ 3,473	\$ -
-	-	-	-	-	-	-
6,881	123,299	1,488	-	-	-	-
7,721	285	-	-	-	-	-
-	-	-	-	-	-	24,868
<u>18,774</u>	<u>129,028</u>	<u>1,488</u>	<u>-</u>	<u>2,272</u>	<u>3,473</u>	<u>24,868</u>
-	-	-	40,213	211,630	620,631	-
-	-	-	40,213	211,630	620,631	-
<u>\$ 18,774</u>	<u>\$ 129,028</u>	<u>\$ 1,488</u>	<u>\$ 40,213</u>	<u>\$ 213,902</u>	<u>\$ 624,104</u>	<u>\$ 24,868</u>

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REGION ONE EDUCATION SERVICE CENTER
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2017

Data Control Codes	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 62,281	\$ 195,159
1120 Investments - Current	-	750,000
1240 Receivables from Other Governments	30,000	2,055,208
1260 Due from Other Funds	-	11,834
1290 Other Receivables	-	400
1000 Total Assets	<u>\$ 92,281</u>	<u>\$ 3,012,601</u>
LIABILITIES		
2110 Accounts Payable	\$ 224	\$ 263,167
2160 Accrued Wages Payable	-	36,111
2170 Due to Other Funds	-	1,492,670
2180 Due to Other Governments	-	219,420
2300 Unearned Revenues	-	36,702
2000 Total Liabilities	<u>224</u>	<u>2,048,070</u>
FUND BALANCES		
Restricted Fund Balance:		
3450 Federal or State Funds Grant Restriction	92,057	964,531
3000 Total Fund Balances	<u>92,057</u>	<u>964,531</u>
4000 Total Liabilities and Fund Balances	<u>\$ 92,281</u>	<u>\$ 3,012,601</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, 2017

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	220 Adult Education Federal
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-
5900 Federal Program Revenues	160,778	1,246,073	2,587,602
5020 Total Revenues	<u>160,778</u>	<u>1,246,073</u>	<u>2,587,602</u>
EXPENDITURES:			
Current:			
0011 Instruction	-	-	1,414,166
0013 Curriculum and Instructional Staff Development	36,162	159,108	14,078
0021 Instructional Leadership	53,095	143,577	139,876
0023 School Leadership	-	-	637,669
0031 Guidance, Counseling and Evaluation Services	-	-	-
0051 Facilities Maintenance and Operations	8,012	69,072	278,644
0053 Data Processing Services	2,803	71,757	103,169
0061 Community Services	-	73,273	-
0062 School District Administrative Support (ESC Only)	60,706	729,286	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-
6030 Total Expenditures	<u>160,778</u>	<u>1,246,073</u>	<u>2,587,602</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EXHIBIT H-2 (Cont'd)

223 TANF Family Assistance	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary	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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
444,989	304,973	2,431,937	774,882	67,300	97,623	100,736	305,020
<u>444,989</u>	<u>304,973</u>	<u>2,431,937</u>	<u>774,882</u>	<u>67,300</u>	<u>97,623</u>	<u>100,736</u>	<u>305,020</u>
298,155	-	7,116	-	-	-	-	-
-	294,709	2,014,678	-	59,878	-	100,736	298,871
40,743	-	113,653	-	-	-	-	-
104,267	-	-	-	-	-	-	-
-	-	7,843	-	-	-	-	-
1,311	6,661	123,242	53,881	4,724	-	-	4,207
513	3,603	70,639	13,733	2,698	-	-	1,942
-	-	-	-	-	-	-	-
-	-	94,766	707,268	-	97,623	-	-
-	-	-	-	-	-	-	-
<u>444,989</u>	<u>304,973</u>	<u>2,431,937</u>	<u>774,882</u>	<u>67,300</u>	<u>97,623</u>	<u>100,736</u>	<u>305,020</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2017

Data Control Codes	288 Special Revenue	289 Other Federal Special Revenue Funds	301 SSA ESEA I, C Migrant	342 SSA - ESEA Title II, A Training
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	297,552	216,294	8,780	31,426
5020 Total Revenues	<u>297,552</u>	<u>216,294</u>	<u>8,780</u>	<u>31,426</u>
EXPENDITURES:				
Current:				
0011 Instruction	192,655	13,979	-	-
0013 Curriculum and Instructional Staff Development	82,054	74,563	-	6,271
0021 Instructional Leadership	-	236	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	1,755
0053 Data Processing Services	-	2,343	-	275
0061 Community Services	-	44,679	-	-
0062 School District Administrative Support (ESC Only)	-	71,208	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	22,843	9,286	8,780	23,125
6030 Total Expenditures	<u>297,552</u>	<u>216,294</u>	<u>8,780</u>	<u>31,426</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

350 SSA - III, A English Lang. Acquisition	385 Visually Impaired SSVI	405 ESC Gifted and Talented	482 Special Revenue Local Program	483 T-STEM Training	490 Chapter 41	491 STAAR One Item Bank
\$ -	\$ -	\$ -	\$ 55,353	\$ 220,635	\$ -	\$ 255,381
-	318,712	10,413	-	-	-	-
25,157	-	-	-	-	-	-
<u>25,157</u>	<u>318,712</u>	<u>10,413</u>	<u>55,353</u>	<u>220,635</u>	<u>-</u>	<u>255,381</u>
-	195,735	-	8,782	70,384	-	-
15,283	109,850	10,413	6,233	175,432	207,942	476,355
-	-	-	-	-	143,681	-
-	-	-	-	-	-	-
-	9,231	-	-	35,935	73,365	2,465
-	3,896	-	125	3,664	7,852	1,374
-	-	-	-	2,447	-	-
-	-	-	-	-	16,500	-
9,874	-	-	-	-	-	-
<u>25,157</u>	<u>318,712</u>	<u>10,413</u>	<u>15,140</u>	<u>287,862</u>	<u>449,340</u>	<u>480,194</u>
-	-	-	40,213	(67,227)	(449,340)	(224,813)
-	-	-	-	-	-	224,813
-	-	-	-	(224,813)	-	-
-	-	-	-	(224,813)	-	224,813
-	-	-	40,213	(292,040)	(449,340)	-
-	-	-	-	503,670	1,069,971	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,213</u>	<u>\$ 211,630</u>	<u>\$ 620,631</u>	<u>\$ -</u>

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REGION ONE EDUCATION SERVICE CENTER
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 127,507	\$ 658,876
5800 State Program Revenues	-	329,125
5900 Federal Program Revenues	-	9,101,122
5020 Total Revenues	<u>127,507</u>	<u>10,089,123</u>
EXPENDITURES:		
Current:		
0011 Instruction	26,875	2,227,847
0013 Curriculum and Instructional Staff Development	-	4,142,616
0021 Instructional Leadership	-	634,861
0023 School Leadership	-	741,936
0031 Guidance, Counseling and Evaluation Services	-	7,843
0051 Facilities Maintenance and Operations	7,429	679,934
0053 Data Processing Services	4,164	294,550
0061 Community Services	-	120,399
0062 School District Administrative Support (ESC Only)	-	1,777,357
Intergovernmental:		
0093 Payments to Fiscal Agent/Member Districts of SSA	-	73,908
6030 Total Expenditures	<u>38,468</u>	<u>10,701,251</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>89,039</u>	<u>(612,128)</u>
OTHER FINANCING SOURCES (USES):		
7915 Transfers In	-	224,813
8911 Transfers Out (Use)	-	(224,813)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	89,039	(612,128)
0100 Fund Balance - September 1 (Beginning)	<u>3,018</u>	<u>1,576,659</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 92,057</u>	<u>\$ 964,531</u>

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REGION ONE EDUCATION SERVICE CENTER
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 AUGUST 31, 2017

	752	754	799	Total
	Print Shop	Computer Operations	Internal Service Fund	Internal Service Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 9,430	\$ -	\$ 14,659	\$ 24,089
Investments - Current	950,000	-	4,200,000	5,150,000
Due from Other Governments	165,259	-	208,385	373,644
Due from Other Funds	40,000	-	40,506	80,506
Other Receivables	-	-	800	800
Inventories	5,121	-	-	5,121
Other Current Assets	-	-	404	404
Total Current Assets	<u>1,169,810</u>	<u>-</u>	<u>4,464,754</u>	<u>5,634,564</u>
Noncurrent Assets:				
Capital Assets:				
Buildings and Improvements	-	-	85,813	85,813
Furniture and Equipment	55,930	109,038	318,538	483,506
Depreciation on Furniture and Equipment	(55,930)	(103,840)	(321,393)	(481,163)
Leased Property Under Capital Leases	-	134,255	-	134,255
Total Noncurrent Assets	<u>-</u>	<u>139,453</u>	<u>82,958</u>	<u>222,411</u>
Total Assets	<u>1,169,810</u>	<u>139,453</u>	<u>4,547,712</u>	<u>5,856,975</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	5,564	34,326	200,110	240,000
Due to Other Funds	-	63,604	-	63,604
Due to Other Governments	-	8,970	-	8,970
Unearned Revenues	-	-	805	805
Total Current Liabilities	<u>5,564</u>	<u>106,900</u>	<u>200,915</u>	<u>313,379</u>
NonCurrent Liabilities:				
Other Long-Term Debt - Due in More than One Year	-	39,175	-	39,175
Total Noncurrent Liabilities	<u>-</u>	<u>39,175</u>	<u>-</u>	<u>39,175</u>
Total Liabilities	<u>5,564</u>	<u>146,075</u>	<u>200,915</u>	<u>352,554</u>
NET POSITION				
Unrestricted Net Position	1,164,246	(6,622)	4,346,797	5,504,421
Total Net Position	<u>\$ 1,164,246</u>	<u>\$ (6,622)</u>	<u>\$ 4,346,797</u>	<u>\$ 5,504,421</u>

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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, 2017

	752	754	799	
	Print Shop	Computer Operations	Internal Service Fund	Total Internal Service Funds
OPERATING REVENUES:				
Local and Intermediate Sources	\$ 551,096	\$ 492,925	\$ 2,593,579	\$ 3,637,600
Total Operating Revenues	<u>551,096</u>	<u>492,925</u>	<u>2,593,579</u>	<u>3,637,600</u>
OPERATING EXPENSES:				
Payroll Costs	101,791	476,656	372,567	951,014
Professional and Contracted Services	186,808	167,189	1,465,977	1,819,974
Supplies and Materials	81,599	241,691	70,097	393,387
Other Operating Costs	-	12,150	92,416	104,566
Depreciation Expense	-	43,564	15,576	59,140
Total Operating Expenses	<u>370,198</u>	<u>941,250</u>	<u>2,016,633</u>	<u>3,328,081</u>
Income (Loss) Before Transfers	180,898	(448,325)	576,946	309,519
Transfers Out	-	-	(590,000)	(590,000)
Change in Net Position	180,898	(448,325)	(13,054)	(280,481)
Total Net Position - September 1 (Beginning)	<u>983,348</u>	<u>441,703</u>	<u>4,359,851</u>	<u>5,784,902</u>
Total Net Position August 31 (Ending)	<u>\$ 1,164,246</u>	<u>\$ (6,622)</u>	<u>\$ 4,346,797</u>	<u>\$ 5,504,421</u>

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REGION ONE EDUCATION SERVICE CENTER
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	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	\$ 592,023	\$ 493,000	\$ 2,593,579	\$ 3,678,602
Cash Received from Assessments - Other Funds	50,000	232,575	50,484	333,059
Cash Payments to Employees for Services	(101,791)	(476,657)	(372,568)	(951,016)
Cash Payments for Contracted Services	(186,808)	(167,189)	(1,465,977)	(1,819,974)
Cash Payments for Suppliers	(99,932)	(216,974)	(113,197)	(430,103)
Cash Payments for Other Operating Expenses	-	(12,150)	(92,416)	(104,566)
Cash Payment for Debt Service	-	(39,175)	-	(39,175)
Net Cash Provided by (Used for) Operating Activities	<u>253,492</u>	<u>(186,570)</u>	<u>599,905</u>	<u>666,827</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>				
Operating Transfer Out	-	-	(590,000)	(590,000)
<u>Cash Flows from Capital & Related Financing Activities:</u>				
Acquisition of Capital Assets	-	(16,729)	-	(16,729)
Net Increase (Decrease) in Cash and Cash Equivalents	253,492	(203,299)	9,905	60,098
Cash and Cash Equivalents at Beginning of Year	705,938	203,299	4,204,754	5,113,991
Cash and Cash Equivalents at End of Year	<u>\$ 959,430</u>	<u>\$ -</u>	<u>\$ 4,214,659</u>	<u>\$ 5,174,089</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>				
<u>Provided by (Used for) Operating Activities:</u>				
Operating Income (Loss):	\$ 180,898	\$ (448,325)	\$ 576,946	\$ 309,519
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	40,927	75	(54,016)	(13,014)
Decrease (Increase) in Due from Other Funds	50,000	160,000	104,494	314,494
Decrease (Increase) in Other Receivables	-	-	(800)	(800)
Decrease (Increase) in Inventories	(3,823)	-	-	(3,823)
Increase (Decrease) in Accounts Payable	(14,510)	24,717	(43,100)	(32,893)
Increase (Decrease) in Non-current Liabilities	-	(39,175)	-	(39,175)
Decrease (Increase) in Due to Other Governments	-	8,970	-	8,970
Decrease (Increase) in Due to Other Funds	-	63,604	-	63,604
Decrease (Increase) In Unearned Revenue	-	-	805	805
Net Cash Provided by (Used for) Operating Activities	<u>\$ 253,492</u>	<u>\$ (186,570)</u>	<u>\$ 599,905</u>	<u>\$ 666,827</u>

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FEDERAL AWARDS SECTION

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PATTILLO, BROWN & HILL, L.L.P.
 CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITOR’S 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, 2017, 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 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Region One Education Service Center 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.

A handwritten signature in cursive script that reads "Patricia Brown Hill, C.P.A.". The signature is written in black ink and is positioned above the typed name and date.

Brownsville, Texas
December 7, 2017



PATTILLO, BROWN & HILL, 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 *U.S. 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, 2017. The 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 the requirements of laws, regulations, contracts, and grants 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 the 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, the 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, 2017.

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Report on Internal Control Over Compliance

Management of the 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 the 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 the 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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.

Puttills, Don Hill, CPA.

Brownsville, Texas
December 7, 2017

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REGION I EDUCATION SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

(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	\$ 50,864
ESC Child Nutrition Program	10.560	108-950	<u>767,736</u>
Total CFDA 10.560			<u>818,600</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>818,600</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Programs:</i>			
Title IV, Operation College Bound	84.066A	P066A160111	<u>133,700</u>
Total CFDA 84.066A			<u>133,700</u>
Title IV, GEAR UP Program	84.334A	P334A110180-16	<u>6,455,415</u>
Total CFDA 84.334A			<u>6,455,415</u>
Title II, Project RISE	84.374A	U374A160002-16A	<u>1,793,221</u>
Total CFDA 84.374A			<u>1,793,221</u>
Title IV, Project HEAL2	84.411C	U411C160117	<u>305,352</u>
Total CFDA 84.411A			<u>305,352</u>
Total Direct Programs			<u>8,687,688</u>
<i>Passed Through State Department of Education:</i>			
ESEA Title I, Part A Focus School Support	84.010A	176101177110001	134,848
ESEA Title I, Part A Basic Services	84.010A	176101197110001	<u>35,000</u>
Total CFDA 84.010A			<u>169,848</u>
ESEA Title I, Part C, - Migratory Basic Services	84.011A	176150027110001	1,300,953
ESEA Title I, Part C, - Migrant Special Project State PAC	84.011A	3629	14,370
ESEA Title I, Part C, - Migrant	84.011A	17615001108950	<u>8,780</u>
Total CFDA 84.011A			<u>1,324,103</u>
ESEA Title III, Part A	84.365A	176710027110001	100,737
ESEA Title III, Part A - LEP	84.365A	17671001108950	<u>25,157</u>
Total CFDA 84.365A			<u>125,894</u>
IDEA - Part B - Pre-School	84.173A	176610227110001	<u>322,179</u>
Total CFDA 84.173A			<u>322,179</u>
IDEA - Part B - Basic Technical Assistance and Support	84.027A	176600567110001	1,768,240
IDEA - Part B - Basic Technical Assistance and Support	84.027A	176600571089506681	44,150
IDEA - Part B - Access General To Curriculum	84.027A	176600587110001	351,468

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REGION I EDUCATION SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

(1)	(2)	(3)	(4) Total Federal Expenditures & Indirect Cost
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	
IDEA - Part B - PBIS & Supports	84.027A	176600597110001	124,370
IDEA - Part B - Basic Technical Assistance and Support	84.027A	176600571089506682	7,581
IDEA - Part B - Basic Technical Assistance and Support	84.027A	176600571089506683	81,293
IDEA - Part B Disc.	84.027A	166600021089506674	37,255
IDEA - Part B Disc.	84.027A	176600021089506674	120,262
IDEA - Part B Sensory Impairments	84.027A	176600227110001	32,684
Total CFDA 84.027A			2,567,303
ESC CTE Admin Tech Assistance	84.048A	174200107110001	42,783
ESC CTE - Leadership	84.048A	174200097110001	12,000
ESC CTE - PBM Administrative Tech Assistance	84.048A	174200117110001	11,062
ESC CTE - Nontraditional	84.048A	174200127110001	5,250
Total CFDA 84.048A			71,095
ESEA, Title II, Part A, TPTR	84.367A	17694501108950	31,894
ESC SLO PD Grants	84.367A	166945617110001	84,681
Equity Plan Support	84.367A	166945647110001	18,450
Total CFDA 84.367A			135,025
TTL I ESC NCLB Support	84.999	176000117120001	77,532
ESEA Title III, Admin	84.999	176000127120001	2,015
Total CFDA 84.999			79,547
TLI ESC Collaborative	84.371C	166460547110001	16,741
Total CFDA 84.371C			16,741
Total Passed Through State Dept. of Education			4,811,736
<i>Passed Through University of Texas at Austin:</i>			
Texas Reg. Collaborative - Science	84.366B	166944047110001	98,686
Texas Reg. Collaborative - Science	84.366B	176944047110001	14,452
Texas Reg. Collaborative - Computer Science	84.366B	166944047110001	100,000
Texas Reg. Collaborative - Math	84.366B	166944047110001	71,752
Texas Reg. Collaborative - Math	84.366B	176944047110001	37,337
Total CFDA 84.366B			322,227
<i>Passed Through Texas Health and Human Services Commission:</i>			
Special Education-Grants to States	84.027	5382001567	135,295
Total CFDA 84.027			135,295
Special Education-Grants for Infants & Families with Disabilities	84.181	5382001567	836,604
Total CFDA 84.181			836,604
Total Passed Through Texas Health and Human Services Commission			971,899

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REGION I EDUCATION SERVICE CENTER
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2017

(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
<i>Passed Through Texas Workforce Commission:</i>			
Adult Basic Education - Federal	84.002A	2316AEL002	2,259,349
Adult Basic Education - Professional Development	84.002A	2316AEL002	90,588
Adult Basic Education - Career Pathways Navigator	84.002A	2316AEL001	84,349
Adult Basic Education - Civics	84.002A	2316AEL002	200,789
Adult Basic Education - Federal	84.002A	2316AELB02	86,838
Adult Basic Education - Professional Development	84.002A	2316AELB02	3,812
Adult Basic Education - Civics	84.002A	2316AELB02	8,399
Total CFDA 84.002A			<u>2,734,124</u>
Total Passed Through Texas Workforce Commission			<u>2,734,124</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>17,527,674</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	309,948
Temporary Assistance for Needy Families - Adult Education	93.558	2316AELB02	77,697
Temporary Assistance for Needy Families - Camp Code	93.558	2317TAN002	83,110
Total CFDA 93.558			<u>470,755</u>
<i>Passed Through Texas Health and Human Services Commission:</i>			
Special Education-Temporary Assistance for Needy Families	93.558	5382001567	188,439
Total CFDA 93.558			<u>188,439</u>
Total CFDA 93.558			<u>659,194</u>
<i>Passed Through Texas Health and Human Services Commission:</i>			
Medicaid Administrative Claiming Program	93.778	529-11-0040-000-16	276,041
Total CFDA 93.778			<u>276,041</u>
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			<u>935,235</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 19,281,508</u>

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REGION ONE EDUCATION SERVICE CENTER
 NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2017

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, 2017.

Federal revenues per the Statement of Revenues	
Expenditures and Changes in Fund Balance	
Government Funds (Exhibit C-3)	\$ 22,826,741
Less:	
Other federal revenues	<u>3,545,233</u>
Federal expenditures per the Schedule of	
Federal Awards (Exhibit K-1)	<u>\$ 19,281,508</u>

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