

**REGION ONE  
EDUCATION SERVICE CENTER**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
AUGUST 31, 2016**

REGION ONE EDUCATION SERVICE CENTER  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2016

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**CERTIFICATE OF BOARD**

Region One Education Service Center  
Name of Service Center

Hidalgo  
County

108-950  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named service center were reviewed and (check one)  approved  disapproved for the year ended August 31, 2016 at a meeting of the Board of Directors of such service center on the 15<sup>th</sup> day of December, 2016.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President



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

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
 Region One Education Service Center  
 Edinburg, Texas

**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, 2016, and the related notes to the financial statements, which collectively comprise Region One Education Service Center's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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.

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

### ***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 Region One Education Service Center, as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Region One Education Service Center's basic financial statements. The combining statements 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 and the Schedule of Expenditures of Federal Awards is the responsibility of management and was 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 statements and the 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 14, 2016 on our consideration of 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Region One Education Service Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Patillo, Brown & Hill, C.P." The signature is written in a cursive style with a large initial 'P' and a distinct ampersand between 'Brown' and 'Hill'.

Brownsville, Texas  
December 14, 2016



# Region One Education Service Center

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Cornelio Gonzalez, Ph.D.  
Executive Director

## 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, 2016. Please read it in conjunction with the Center’s financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The Center’s total combined net assets were \$39,098,092 at August 31, 2016, which reflects an increase of less than 2% between fiscal years 8/31/15 and 8/31/16.
- During the year, the Center’s expenses were \$101,543 less than the \$43,570,826 generated in local charges and other revenues for governmental activities. This is less than last year, when revenues exceeded expenses by \$1,804,819.
- The general fund reported an excess of revenues over expenditures this year of \$1,526,059, \$500,000 was transferred from the general fund to the construction fund and 117,527 was proceeds from a capital lease which increased the fund balance this year to \$11,551,929.

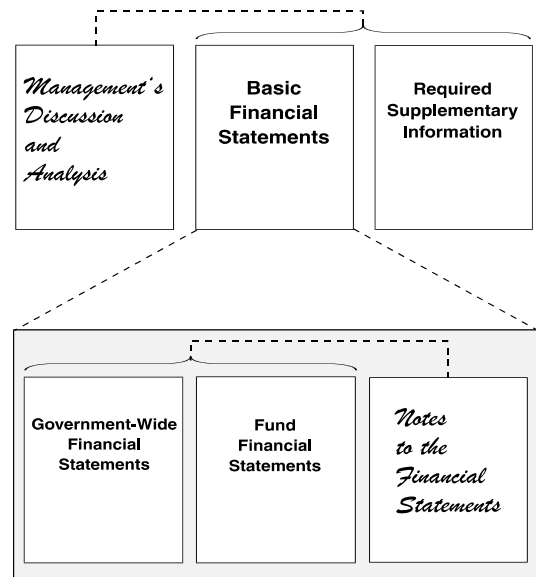
### OVERVIEW OF THE FINANCIAL STATEMENTS

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*

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



Summary ← → Detail

or agent for the benefit of others, to whom the resources in question belong.

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

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

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

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

### Government-wide Statements

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

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

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

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

### Fund Financial Statements

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

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

The Center has the following kinds of funds:

- *Governmental funds*—Most of the Center’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements



provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Center’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

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

## FINANCIAL ANALYSIS OF THE CENTER AS A WHOLE

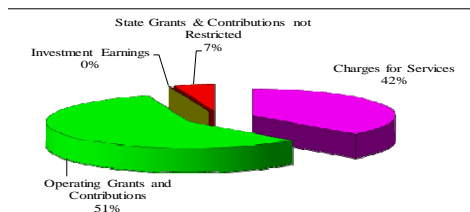
Net assets. The Center’s combined net assets decreased by 4%, to approximately \$29,716,023 between the fiscal years 2015 and 2016 (See Table A-1).

<b>Region One Education Service Center's Net Assets</b>			
	<b>Governmental Activities</b>		<b>Total</b>
	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>% Change</u></b>
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 942,593	\$ 1,198,213	27.12%
Current investments	19,117,507	17,178,182	-10.14%
Due from other governments	5,098,244	7,335,212	43.88%
Other receivables	138,377	134,083	-3.10%
Prepayments	2,417	423,473	17420.60%
Inventories-supplies	8,690	1,298	-85.06%
Other current assets	<u>5,654</u>	<u>403</u>	-92.87%
Total Current Assets	<u>25,313,482</u>	<u>26,270,864</u>	3.78%
<b>Noncurrent Assets:</b>			
Land	110,473	110,473	0.00%
Building	15,509,805	15,582,214	0.47%
Leased property under capital leases	5,177,406	5,412,460	4.54%
Furniture and equipment	1,684,011	1,816,462	7.87%
Library books and media	<u>1,395,644</u>	<u>1,395,644</u>	0.00%
Less: Accumulated depreciation	<u>(10,674,918)</u>	<u>(11,490,025)</u>	7.64%
Total Noncurrent Assets	<u>13,202,421</u>	<u>12,827,228</u>	-2.84%
<b>Total Assets</b>	<u>38,515,903</u>	<u>39,098,092</u>	1.51%
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	680,978	1,207,477	77.32%
Payroll deductions & withholdings	162,985	199,142	22.18%
Accrued Wages Payable	-	208,682	#DIV/0!
Due to other governments	1,262,851	2,008,263	59.03%
Unearned Revenue	887,486	685,959	-22.71%
Due Within One Year	238,249	78,351	-67.11%
Due in More Than One Year	224,070	78,351	-65.03%
Net Pension Liability (District's Share)	<u>3,993,619</u>	<u>8,987,434</u>	125.04%
Total Liabilities	<u>7,450,238</u>	<u>13,453,659</u>	80.58%
<b>Deferred Inflows of Resources</b>			
Deferred Inflow Related to TRS	<u>1,221,660</u>	<u>668,727</u>	-45.26%
Total Deferred Inflows of Resources	<u>1,221,660</u>	<u>668,727</u>	-45.26%
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	12,740,103	12,567,103	-1.36%
Restricted for federal and state program	3,432,166	1,576,659	0.00%
Restricted for capital projects	3,234,324	3,734,324	15.46%
Restricted for other purposes	7,177,365	7,749,451	7.97%
Unrestricted net assets	<u>4,334,249</u>	<u>4,088,486</u>	-5.67%
<b>Total Net Assets</b>	<u>\$ 30,918,207</u>	<u>\$ 29,716,023</u>	-3.89%

(1) Unrestricted net assets showed a \$4.1 million surplus at the end of this year. This surplus represents a decrease of 6% from last year’s surplus and 10% of the Center’s operating budget. The \$4,088,486 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 9% to \$43,955,484. A significant portion, 51%, of the Center’s revenue comes from operating grants. (See Figure A-3.) 7% comes from ESC state-grants not restricted, while 42% relates to charges for services.

The total cost of all programs and services increased 8% to \$44,726,677 the instruction and instructional related services and student services functions represent 60% of these costs.



**Governmental Activities**

- Investment earnings increased by approximately 142% due to an increased in the interest rate. Charges for services increased by 23% from \$14,966,483 to \$18,408,260 due to increase in increase in the substitute service program.
- Grants not restricted represent revenues for indirect cost, foundation funds and other grants not restricted. These funds increased by 58% from \$1,839,495 to 2,911,252 due to an increase in the State Foundation Entitlement due to additional staff in SUBHUB program, new Math & Literacy Academy grants interlocal agreements. The state aid – formula grants represent state funds received for Center operations. These funds increased by less than 2% due to an increase in the actual spending. Over all, funds received for center operations increased by 9%.
- Operating grants and contributions represent federal and state funds restricted for a specific program. The Center obtained approximately \$1,031,058 less federal and state grants as compared to last year.

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

	<u>Governmental Activities</u>		<u>Total</u>
	<u>2015</u>	<u>2016</u>	<u>% Change</u>
<b>Program Revenues:</b>			
Charges for services	\$ 14,966,483	\$ 18,408,260	23.00%
Operating grants and contributions	23,336,555	22,305,497	-4.42%
Grants and contributions not restricted	1,839,495	2,911,252	58.26%
Investment earnings	27,703	67,100	142.21%
State aid - formula grants	257,745	263,375	2.18%
Miscellaneous local and intermediate revenue	58,615	-	-100.00%
<b>Total Revenues</b>	<b>40,486,596</b>	<b>43,955,484</b>	<b>8.57%</b>
<b>Program Expenses:</b>			
Instruction	9,989,902	13,932,818	39.47%
Instructional resources media services	1,286,187	1,310,146	1.86%
Curriculum dev. and instructional staff dev.	13,059,629	11,619,304	-11.03%
Instructional leadership	2,103,577	2,104,465	0.04%
School leadership	643,245	731,354	13.70%
Guidance, counseling, and evaluation services	12,433	7,938	-36.15%
Student (pupil)	166	166	0.00%
General administration	2,007,485	2,200,316	9.61%
Plant and maintenance	1,796,186	1,692,033	-5.80%
Security and monitoring	35,297	35,297	0.00%
Data processing services	3,376,883	3,543,744	4.94%
Community services	226,809	227,159	0.15%
School district administrative support	3,788,123	4,405,970	16.31%

Debt service	40,979	15,601	-61.93%
Payments to fiscal agent/member dist.-SSA	<u>3,227,534</u>	<u>2,900,366</u>	-10.14%
Total Expenditures	<u>41,594,435</u>	<u>44,726,677</u>	7.53%
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (1,107,839)</b>	<b>\$ (771,193)</b>	<b>-30.39%</b>

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 8% this year ending at \$44,726,677. Some of the cost was paid by those who directly benefited from the programs \$18,408,260 or by grants and contributions totaling \$22,305,497.

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

	Total Cost of Services		Total
	<u>2015</u>	<u>2016</u>	<u>% Change</u>
Instruction	\$9,989,902	\$13,932,818	39.47%
Instructional Resources and Media Services	1,286,187	1,310,146	1.86%
Curriculum Dev. And Instructional Staff Dev.	13,059,629	11,619,304	-11.03%
Instructional Leadership	2,103,577	2,104,465	0.04%
School Leadership	643,245	731,354	13.70%
Plant Maintenance & Operations	1,796,186	1,692,033	-5.80%
Data Processing Services	3,376,883	3,543,744	4.94%
School District Administration Support (ESC only)	3,788,123	4,405,970	16.31%
Debt Service - Interest & Sinking	40,979	15,601	-61.93%

## FINANCIAL ANALYSIS OF THE CENTER’S FUNDS

Revenues from governmental fund types totaled \$43,570,826, an increase of less than 8% over the preceding year. The increase in local revenues is a result of an increase in revenues in substitute service program. The decrease in operating grants and contributions of less than 5% is primarily due a decrease in grant allocation. The increase of 58% in grants and contributions not restricted is due to an increase in foundation entitlement from the state due to an increase in staffing in the SUBHUB program. Expenditures from governmental fund types totaled \$43,469,283 an increase of 3% over the preceding year. The increase in the Instruction functions are primarily an increase in SUBHUB program. The increase in the School Leadership function is primarily due to an increase in services for the Early Childhood Intervention Program and the Adult Education Program. The decrease in Debt Service - Interest & Sinking is due to the payoff of a loan.

### General Fund Budgetary Highlights

Over the course of the year, the Center revised its budget approximately 10 times. Actual expenditures were \$1,426,468 below final budget amounts. Some local programs realized lower than projected revenues due to a decrease in participants in staff development sessions.

On the other hand, resources available were \$477,055 over the final budgeted amount. As noted earlier:

- The center received an increase in Foundation Entitlements for the state due to additional staff in the SUBHUB program.

## CAPITAL ASSETS

At the end of 2016, the Center had invested \$24,314,253 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents an increase of \$439,914 or less than 2% 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>2015</u>	<u>2016</u>	<u>% Change</u>
Land	\$ 110,473	\$ 110,473	0.00%
Buildings and improvements	15,509,805	15,582,214	0.47%
Capital leases	5,177,406	5,412,460	4.54%
Equipment	1,684,011	1,816,462	7.87%
Library books & media	<u>1,395,644</u>	<u>1,395,644</u>	0.00%
Totals at historic cost	<u>23,877,339</u>	<u>24,317,253</u>	1.84%
Total accumulated depreciation	<u>(10,674,918)</u>	<u>(11,490,025)</u>	7.64%
Net capital assets	<u>\$ 13,202,421</u>	<u>\$ 12,827,228</u>	-2.84%

The Center's fiscal year 2015-16 capital budget projects has earmarked an additional \$500,000 for construction; principally for the renovations of Laredo satellite office. 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 2016-2017.

These indicators were taken into account when adopting the general fund budget for 2017. Amounts available for appropriation in the general fund budget are \$23,413,167 an increase of 7% under the final 2016 budget of \$21,983,387. The original budget for 2016-17 represents very conservative figures.

Expenditures are budgeted to increase by 5% to \$23,413,167. The increase is due to an increase in school districts joining the SUBHUB program. Several local consortiums were expanded to included services that were requested by school districts. If these estimates are realized, the Center's budgetary general fund balance is not expected to change appreciably by the close of 2017.

## CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

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

# **BASIC FINANCIAL STATEMENTS**

REGION ONE EDUCATION SERVICE CENTER  
STATEMENT OF NET POSITION  
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 1,198,213
1120 Current Investments	17,178,182
1240 Due from Other Governments	7,335,212
1290 Other Receivables, net	134,083
1300 Inventories	1,298
1410 Prepayments	423,473
1490 Other Current Assets	403
Capital Assets:	
1510 Land	110,473
1520 Buildings, Net	9,154,289
1530 Furniture and Equipment, Net	526,582
1550 Leased Property Under Capital Leases, Net	1,640,240
1560 Library Books and Media, Net	1,395,644
1000 Total Assets	39,098,092
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705 Deferred Outflow Related to TRS	4,740,317
1700 Total Deferred Outflows of Resources	4,740,317
<b>LIABILITIES</b>	
2110 Accounts Payable	1,207,477
2150 Payroll Deductions & Withholdings	199,142
2160 Accrued Wages Payable	208,682
2177 Due to Fiduciary Funds	60,000
2180 Due to Other Governments	1,948,263
2300 Unearned Revenue	685,959
Noncurrent Liabilities	
2501 Due Within One Year	78,351
2502 Due in More Than One Year	78,351
2540 Net Pension Liability (District's Share)	8,987,434
2000 Total Liabilities	13,453,659
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS	668,727
2600 Total Deferred Inflows of Resources	668,727
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	12,567,103
3820 Restricted for Federal and State Programs	1,576,659
3860 Restricted for Capital Projects	3,734,324
3890 Restricted for Other Purposes	7,249,451
3900 Unrestricted	4,588,486
3000 Total Net Position	\$ 29,716,023

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

REGION ONE EDUCATION SERVICE CENTER  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
	Expenses	3 Charges for Services	4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position <u>Primary Gov.</u> Governmental Activities

**Primary Government:**

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 13,932,818	\$ 5,163,916	\$ 7,685,891	\$ (1,083,011)
12 Instructional Resources and Media Services	1,310,146	1,166,046	10,390	(133,710)
13 Curriculum and Staff Development	11,619,304	3,745,999	6,503,251	(1,370,054)
21 Instructional Leadership	2,104,465	241,718	1,388,737	(474,010)
23 School Leadership	731,354	-	691,262	(40,092)
31 Guidance, Counseling and Evaluation Services	7,938	-	7,938	-
34 Student (Pupil) Transportation	166	-	-	(166)
41 General Administration	2,200,316	1,998,935	115,045	(86,336)
51 Facilities Maintenance and Operations	1,692,033	667,351	869,995	(154,687)
52 Security and Monitoring Services	35,297	-	-	(35,297)
53 Data Processing Services	3,543,744	2,925,625	544,517	(73,602)
61 Community Services	227,159	-	155,496	(71,663)
62 School District Administrative Support (ESC)	4,405,970	2,498,669	1,432,609	(474,692)
72 Debt Service - Interest on Long Term Debt	15,601	-	-	(15,601)
93 Payments related to Shared Services Arrangements	2,900,366	-	2,900,366	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 44,726,677	\$ 18,408,259	\$ 22,305,497	(4,012,921)

Data Control Codes		
	General Revenues:	
	Taxes:	
SF	State Aid - Formula Grants	263,375
GC	Grants and Contributions not Restricted	2,911,252
IE	Investment Earnings	67,100
MI	Miscellaneous Local and Intermediate Revenue	1
TR	Total General Revenues	3,241,728
CN	Change in Net Position	(771,193)
NB	Net Position - Beginning	30,918,207
PA	Prior Period Adjustment	(430,991)
NE	Net Position--Ending	\$ 29,716,023

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

REGION ONE EDUCATION SERVICE CENTER  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2016

Data Control Codes	10 General Fund	GEAR Up	Early Childhood Intervention
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 725,259	\$ -	\$ 175,868
1120 Investments - Current	7,378,182	-	-
1240 Receivables from Other Governments	2,217,560	2,071,088	294,615
1260 Due from Other Funds	3,555,580	-	-
1290 Other Receivables	134,083	-	-
1410 Prepayments	2,478	-	-
1000 Total Assets	<u>\$ 14,013,142</u>	<u>\$ 2,071,088</u>	<u>\$ 470,483</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 534,903	\$ 97,766	\$ 39,492
2150 Payroll Deductions and Withholdings Payable	199,142	-	-
2160 Accrued Wages Payable	161,258	-	-
2170 Due to Other Funds	1,092,938	672,079	-
2180 Due to Other Governments	78,706	1,301,243	430,991
2300 Unearned Revenues	394,266	-	-
2000 Total Liabilities	<u>2,461,213</u>	<u>2,071,088</u>	<u>470,483</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3430 Prepaid Items	2,478	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3490 Other Restricted Fund Balance	885,721	-	-
Committed Fund Balance:			
3510 Construction	500,000	-	-
3545 Other Committed Fund Balance	6,363,730	-	-
3600 Unassigned Fund Balance	3,800,000	-	-
3000 Total Fund Balances	<u>11,551,929</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 14,013,142</u>	<u>\$ 2,071,088</u>	<u>\$ 470,483</u>

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



Capital Projects Fund	Other Nonmajor Funds	Total Governmental Funds
\$ 34,324	\$ 248,771	\$ 1,184,222
3,200,000	1,500,000	12,078,182
-	2,391,318	6,974,581
-	250,000	3,805,580
-	-	134,083
-	420,995	423,473
<u>\$ 3,234,324</u>	<u>\$ 4,811,084</u>	<u>\$ 24,600,121</u>
\$ -	\$ 262,422	\$ 934,583
-	-	199,142
-	47,424	208,682
-	2,495,563	4,260,580
-	137,323	1,948,263
-	291,693	685,959
<u>-</u>	<u>3,234,425</u>	<u>8,237,209</u>
-	-	2,478
-	1,576,659	1,576,659
-	-	885,721
3,234,324	-	3,734,324
-	-	6,363,730
-	-	3,800,000
<u>3,234,324</u>	<u>1,576,659</u>	<u>16,362,912</u>
<u>\$ 3,234,324</u>	<u>\$ 4,811,084</u>	<u>\$ 24,600,121</u>

REGION ONE EDUCATION SERVICE CENTER  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2016

<b>Total Fund Balances - Governmental Funds</b>	\$ 16,362,912
<b>1</b> 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.	5,784,902
<b>2</b> 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 \$23,877,340 and the accumulated depreciation was (\$10,674,918). 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.	12,740,103
<b>3</b> 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 2016 capital outlays and debt principal payments is to decrease net position.	1,071,185
<b>4</b> Included in the items related to debt is the recognition of the Center's proportionate share of the net pension liability required by GASB 68 in the amount of \$8,987,434, a deferred resource inflow related to TRS in the amount of \$668,727 and a deferred resource outflow related to TRS in the amount of \$4,740,317. This amounted to a decrease in net position in the amount of \$4,915,844.	(4,915,844)
<b>5</b> The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(905,708)
<b>6</b> 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.	(421,527)
<b>19 Net Position of Governmental Activities</b>	<u>\$ 29,716,023</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, 2016

Data Control Codes	10 General Fund	GEAR Up	Early Childhood Intervention
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 18,474,635	\$ -	\$ -
5800 State Program Revenues	3,024,249	-	247,145
5900 Federal Program Revenues	961,558	6,627,048	4,044,053
5020 Total Revenues	<u>22,460,442</u>	<u>6,627,048</u>	<u>4,291,198</u>
EXPENDITURES:			
Current:			
0011 Instruction	5,840,253	1,450,188	3,742,025
0012 Instructional Resources and Media Services	1,263,204	-	-
0013 Curriculum and Instructional Staff Development	4,610,343	1,961,359	3,153
0021 Instructional Leadership	398,806	153,597	805,172
0023 School Leadership	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-
0041 General Administration	2,105,995	-	-
0051 Facilities Maintenance and Operations	827,632	52,555	186,742
0053 Data Processing Services	3,158,107	24,061	116,362
0061 Community Services	28,500	113,184	-
0062 School District Administrative Support (ESC Only)	2,701,543	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	-	2,872,104	-
6030 Total Expenditures	<u>20,934,383</u>	<u>6,627,048</u>	<u>4,853,454</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,526,059</u>	<u>-</u>	<u>(562,256)</u>
OTHER FINANCING SOURCES (USES):			
7913 Capital Leases	117,527	-	-
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	(500,000)	-	-
7080 Total Other Financing Sources (Uses)	<u>(382,473)</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	1,143,586	-	(562,256)
0100 Fund Balance - September 1 (Beginning)	10,408,343	-	993,247
1300 Prior Period Adjustment(s)	-	-	(430,991)
3000 Fund Balance - August 31 (Ending)	<u>\$ 11,551,929</u>	<u>\$ -</u>	<u>\$ -</u>

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

Capital Projects Fund	Other Nonmajor Funds	Total Governmental Funds
\$ -	\$ 844,237	\$ 19,318,872
-	582,156	3,853,550
-	8,765,745	20,398,404
-	10,192,138	43,570,826
-	2,414,331	13,446,797
-	-	1,263,204
-	4,641,147	11,216,002
-	645,869	2,003,444
-	691,262	691,262
-	7,938	7,938
-	66	2,106,061
-	724,344	1,791,273
-	329,029	3,627,559
-	42,312	183,996
-	1,529,838	4,231,381
-	28,262	2,900,366
-	11,054,398	43,469,283
-	(862,260)	101,543
-	-	117,527
500,000	75,225	575,225
-	(75,225)	(575,225)
500,000	-	117,527
500,000	(862,260)	219,070
2,734,324	2,438,919	16,574,833
-	-	(430,991)
<u>\$ 3,234,324</u>	<u>\$ 1,576,659</u>	<u>\$ 16,362,912</u>

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, 2016

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	219,070
 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.		(42,497)
 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 2016 capital outlays and debt principal payments is to decrease net position.		1,071,185
 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.		(905,708)
 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.		(338,477)
 The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$781,457. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability for the Center. This caused a decrease in the change in net position in the amount of \$752,848. The Center's 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 \$803,375. The net result is to decrease the change in net position by \$774,766.		(774,766)
 <b>Change in Net Position of Governmental Activities</b>	<u>\$</u>	<u>(771,193)</u>

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

REGION ONE EDUCATION SERVICE CENTER  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2016

	Governmental Activities -
	Total Internal Service Funds
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 13,991
Investments - Current	5,100,000
Due from Other Governments	360,631
Due from Other Funds	395,000
Inventories	1,298
Other Current Assets	403
Total Current Assets	<u>5,871,323</u>
Noncurrent Assets:	
Capital Assets:	
Buildings and Improvements	85,813
Depreciation on Buildings	(11,262)
Furniture and Equipment	601,033
Depreciation on Furniture and Equipment	<u>(410,760)</u>
Total Noncurrent Assets	<u>264,824</u>
Total Assets	<u>6,136,147</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	<u>272,894</u>
Total Current Liabilities	<u>272,894</u>
Noncurrent Liabilities:	
Other Long-Term Debt	<u>78,351</u>
Total Noncurrent Liabilities	<u>78,351</u>
Total Liabilities	<u>351,245</u>
<b>NET POSITION</b>	
Unrestricted Net Position	<u>5,784,902</u>
Total Net Position	<u>\$ 5,784,902</u>

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

REGION ONE EDUCATION SERVICE CENTER  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

	Governmental Activities -
	Total Internal Service Funds
<hr/>	
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 3,522,645
Total Operating Revenues	<u>3,522,645</u>
OPERATING EXPENSES:	
Payroll Costs	848,499
Professional and Contracted Services	1,905,393
Supplies and Materials	173,637
Other Operating Costs	103,167
Depreciation Expense	56,526
Debt Service	477,920
Total Operating Expenses	<u>3,565,142</u>
Operating Income (Loss)	(42,497)
Total Net Position - September 1 (Beginning)	<u>5,827,399</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 5,784,902</u></u>

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

REGION ONE EDUCATION SERVICE CENTER  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 3,349,896
Cash Received from Other	2,747
Cash Payments to Employees for Services	(848,498)
Cash Payments for Contracted Services	(1,905,393)
Cash Payments for Suppliers	(260,115)
Cash Payments for Other Operating Expenses	(137,412)
Cash Payment for Debt Service	(477,920)
Net Cash Used for Operating Activities	<u>(276,695)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(238,300)</u>
<u>Cash Flows from Investing Activities:</u>	
Proceeds from Capital Leases	<u>78,351</u>
Net Decrease in Cash and Cash Equivalents	(436,644)
Cash and Cash Equivalents at Beginning of Year	<u>5,550,635</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,113,991</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (42,497)
Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities:	
Depreciation	56,526
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(172,749)
Decrease (increase) in Inventories	7,392
Decrease (increase) in Due from Other Funds	(130,798)
Increase (decrease) in Accounts Payable	15,658
Increase (decrease) in Due to Other Governments	(10,227)
Net Cash Used for Operating Activities	<u>\$ (276,695)</u>

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



REGION ONE EDUCATION SERVICE CENTER  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2016

	Private Purpose Trust Fund
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 20,045
Due from Other Governments	7,575
Due from Other Funds	60,000
Total Assets	<u>87,620</u>
<b>LIABILITIES</b>	
Accounts Payable	15,023
Due to Student Groups	72,597
Total Liabilities	<u>87,620</u>

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

REGION ONE EDUCATION SERVICE CENTER  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

	Private Purpose Trust Fund
<b>ADDITIONS:</b>	
Local and Intermediate Sources	\$ 38,377
Total Additions	<u>38,377</u>
<b>DEDUCTIONS:</b>	
Professional and Contracted Services	32,851
Other Operating Costs	5,526
Total Deductions	<u>38,377</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.

REGION ONE EDUCATION SERVICE CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2016

**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 promulgated by the Governmental Accounting Standards Board (“GASB”) and 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.

**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.

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.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and 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, 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.

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.

### **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. **Early Childhood Intervention** - is used to account for resources restricted to, or designated for specific purposes as stipulated within the contract.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **D. BASIS OF PRESENTATION - FUND ACCOUNTING**

4. ***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.

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.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**E. OTHER ACCOUNTING POLICIES**

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:
  - **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.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**E. OTHER ACCOUNTING POLICIES**

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 elements, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or 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.

8. 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.
9. 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.
10. 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.
11. Indirect expenses are charged upon a service center-wide cost allocation plan, which allocates these costs based upon the number of full time equivalents.

**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.

**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**

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:

Capital Assets at the Beginning of Year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of Year	Change in Net Position
Land	\$ 110,473	\$ -	\$ 110,473	
Buildings & Improvements	15,509,806	(5,845,373)	9,664,433	
Furniture & Equipment	1,684,011	(1,534,138)	149,873	
Capital Leases	5,177,406	(3,295,407)	1,881,999	
Library Books & Media	1,395,644	-	1,395,644	
Change in Net Position				\$ 13,202,422
Long-Term Liabilities at the Beginning of Year			Payable at the Beginning of Year	
Capital Leases			(462,319)	
Change in Net Position				(462,319)
Net Adjustment to Net Position				\$ 12,740,103

**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	\$ 72,408	\$ 72,408	
Furniture & Equipment	458,106	458,106	
Total Capital Outlay			\$ 530,514
<u>Debt Principal Payments</u>			
Capital Lease Payments	540,671	540,671	
Total Principal Payments	540,671	540,671	540,671
Net Adjustment to Net Position			\$ 1,071,185



### **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 20<sup>th</sup> the Center prepares a budget for the next succeeding fiscal year beginning September 1<sup>st</sup>. 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 1<sup>st</sup>, 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 31<sup>st</sup>, 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, 2016, the carrying amount of the Center’s deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,198,213 and the bank balance was \$1,483,308. The Center’s cash deposits at August 31, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the Center’s agent bank in the Center’s name.

#### IV. DETAILED NOTES ON ALL FUNDS

##### A. DEPOSITS AND INVESTMENTS

###### 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, 2016, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
TexPool	\$ 1,542,073	\$ 1,542,073	\$ -	\$ -	\$ -
Texas Class Investment	2,194,686	2,194,686	-	-	-
Lone Star NOW Public Fund	13,441,423	13,441,423	-	-	-
Total	<u>\$ 17,178,182</u>	<u>\$ 17,178,182</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Additional policies and contractual provisions governing deposits and investments for the Center are specified below:

**Credit Risk** – In accordance with state law and the Center's investment policy, investments in mutual funds and investment pools must be rated at least AAA or have an equivalent rating, commercial paper must be rated at least A-1, P-1 or have an equivalent rating, and obligations of states, agencies, counties, and cities must be at least A or its equivalent. As of August 31, 2016, 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.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

**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, 2016, the Center had 78% 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 22% 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.

**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, 2016, 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	\$ 616,935	\$ -	\$ 1,600,625	\$ 2,217,560
Special Revenue	86,504	3,827,111	843,406	4,757,021
Internal Service	-	-	360,631	360,631
Total	<u>\$ 703,439</u>	<u>\$ 3,827,111</u>	<u>\$ 2,804,662</u>	<u>\$ 7,335,212</u>

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

Interfund balances at August 31, 2016 consisted of the following individual fund balances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	General Fund	\$ 387,938
General Fund	Special Revenue Funds	3,167,642
Special Revenue Funds	General Fund	250,000
Internal Service Funds	General Fund	395,000
Fiduciary Fund	General Fund	60,000
Total		<u>\$ 4,260,580</u>

The entire balance of \$4,260,580 resulted from end of year reclasses made between funds.

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
Other Nonmajor Funds	Other Nonmajor Funds	75,255	Construction
	Total	<u>\$ 575,255</u>	

**IV. DETAILED NOTES ON ALL FUNDS**

**D. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

As of August 31, 2016, 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 \$134,083 with no allowance at year end.

**E. CAPITAL ASSET ACTIVITY**

Capital asset activity for the Center for the year ended August 31, 2016, was as follows:

Governmental Activities:	Balance	Changes During Year		Balance
	<u>9/1/2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>8/31/2016</u>
Land	\$ 110,473	\$ -	\$ -	\$ 110,473
Buildings & Improvements	15,509,806	72,408	-	15,582,214
Furniture & Equipment	1,684,011	458,106	(90,601)	2,051,516
Capital Leases	5,177,406	-	-	5,177,406
Library Books & Media	1,395,644	-	-	1,395,644
Totals at Historic Cost	<u>23,877,340</u>	<u>530,514</u>	<u>(90,601)</u>	<u>24,317,253</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(5,845,373)	(582,552)	-	(6,427,925)
Furniture & Equipment	(1,534,138)	(81,397)	90,601	(1,524,934)
Capital Leases	<u>(3,295,407)</u>	<u>(241,759)</u>	<u>-</u>	<u>(3,537,166)</u>
Total Accumulated Depreciation	<u>(10,674,918)</u>	<u>(905,708)</u>	<u>90,601</u>	<u>(11,490,025)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 13,202,422</u>	<u>\$ (375,194)</u>	<u>\$ -</u>	<u>\$ 12,827,228</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,932
Instructional Resources & Media Services	41,946
Curriculum & Instructional Staff Development	93,310
Instructional Leadership	14,560
Student (Pupil) Transportation	166
General Administration	38,982
Plant Maintenance & Operations	326,234
Security and Monitoring Services	35,297
Data Processing Services	187,158
Community Services	43,163
School District Administrative Support (ESC only)	66,434
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>56,526</u>
Totals	<u>\$ 905,708</u>

**IV. DETAILED NOTES ON ALL FUNDS**

**F. CHANGES IN LONG-TERM LIABILITIES**

Long-term liabilities for the Center for the year ended August 31, 2016, was as follows:

<u>Purpose</u>	<u>Amount of Original Issue</u>	<u>Interest Rate</u>	<u>Balance 9/1/2015</u>	<u>Principal Issued</u>	<u>Principal Retired</u>	<u>Balance 8/31/2016</u>	<u>Due Within One Year</u>
<u>Capital Lease</u>							
Construction Improvement & Tech Center	\$ 4,975,000	5.00%	\$ 462,319	\$ -	\$ (462,319)	\$ -	\$ -
SHI Government Solutions	-	0.00%	-	235,054	(78,352)	156,702	78,351
Total Long-Term Liabilities			<u>\$ 462,319</u>	<u>\$ 235,054</u>	<u>\$ (540,671)</u>	<u>\$ 156,702</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, 2016, and current principal and interest requirements are recorded in the applicable fund.

The \$4,975,000 lease agreement represents construction improvements to 1) the existing physical plant, in the amount of \$765,000, and 2) a new technology center, in the amount of \$3,799,275 financed under authority provided by Texas Education Code S.8.055. That section authorizes the issuance of debt by a regional education service center. To secure the debt service payments toward the debt obligations used to finance the improvements, the Center has given a ground lease for an 8.055 acre tract on which the technology center was built and is leasing - back (subleasing) the tract of land with the improvements. The transaction is analogous to a mortgage with the rental payments being paid by the Center being similar to mortgage payments. Montalvo & Ramirez, as bond counsel on the transaction, has issued an opinion that the transaction conforms to state law.

The Center refinanced the lease agreement on June 15, 2009 with Lone Star National Bank. The 7-year lease agreement will consist of semi-annual payments of \$250,000 including interest at 5.0% and will be due on June 15 and December 15 of each year. Payments will begin on December 15, 2009 and last payment will be due on June 15, 2016.

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, 2016, are as follows:

<u>Year Ending August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 78,351	\$ -	\$ 78,351
2018	78,351	-	78,351
Totals	<u>\$ 156,702</u>	<u>\$ -</u>	<u>\$ 156,702</u>

**IV. DETAILED NOTES ON ALL FUNDS**

**G. COMMITMENTS UNDER LEASES**

Operating (Noncapitalized) Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2016, are as follows:

Year ending <u>August 31,</u>	
2017	\$ 57,906
Total Minimum Rentals	<u>\$ 57,906</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, 2016, employees of the Center were covered by a health insurance plan (the “Plan”). The Center paid premiums of \$532.58 per month per employee 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.

**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 \$9,828,173. 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.

#### IV. DETAILED NOTES ON ALL FUNDS

##### L. **DEFINED PENSION PLAN**

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 83<sup>rd</sup> 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 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<b>Contribution Rates</b>	
	<b>2015</b>	<b>2016</b>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2016 Employer Contributions		\$ 781,457
2016 Member Contributions		\$ 1,484,514
2015 NECE On-Behalf Contributions		\$ 782,317

#### IV. DETAILED NOTES ON ALL FUNDS

##### L. **DEFINED PENSION PLAN**

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, 2015, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	8/31/2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None



#### IV. DETAILED NOTES ON ALL FUNDS

##### L. **DEFINED PENSION PLAN**

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. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

**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, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Portfolio Real Rate of Return*</u>
<b>Global Equity</b>			
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%
<b>Stable Value</b>			
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%
<b>Real Return</b>			
Global Inflation Linked Bonds	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%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Alpha			2.2%
Inflation Expectation			1%
<b>Total</b>	<u>100%</u>		<u>8.7%</u>

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

**IV. DETAILED NOTES ON ALL FUNDS**

**L. DEFINED PENSION PLAN**

**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 2015 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:	\$ 14,081,616	\$ 8,987,434	\$ 4,744,298

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2015, the Center reported a liability of \$8,987,434 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:

District's proportionate share of the collective net pension liability	\$ 8,987,434
State's proportionate share that is associated with the District	<u>9,336,464</u>
Total	<u><u>\$ 18,323,898</u></u>

The net pension liability was measured as of August 31, 2015 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, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0254251% which was an increase (decrease) of 0.0104741% from its proportion measured as of August 31, 2014.

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.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2015, the Center recognized pension expense of \$1,330,296 and revenue of \$1,330,296 for support provided by the State.

**IV. DETAILED NOTES ON ALL FUNDS**

**L. DEFINED PENSION PLAN**

At August 31, 2015, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experiences	\$ 51,366	\$ 345,395.00
Changes in actuarial assumptions	215,892	320,632
Differences between projected and actual investment earnings	1,297,945	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>2,393,657</u>	<u>2,700</u>
Total	<u>\$ 3,958,860</u>	<u>\$ 668,727</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>
2017	\$ 594,481
2018	594,481
2019	594,480
2020	899,635
2021	343,075
Thereafter	263,981

At August 31, 2015, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Total net amounts per August 31, 2015 measurement date	\$ 3,958,860	\$ 668,727
Contributions paid to TRS subsequent to measurement date	<u>781,457</u>	<u>-</u>
Total	<u>\$ 4,740,317</u>	<u>\$ 668,727</u>

**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](http://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.

**IV. DETAILED NOTES ON ALL FUNDS**

**M. RETIREE HEALTH PLAN**

**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 7.2% for fiscal year 2016, 6.7% for fiscal year 2015, and a state contribution rate of 6.8% for fiscal years 2014-2016, 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 2013-2015.

State contributions to TRS made on behalf of the Center's employees for the years ended August 31, 2016, 2015, and 2014 were \$1,402,054, \$1,246,534 and \$1,048,601, 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, 2016, 2015 and 2014 were \$92,351, \$82,853 and \$42,123 respectively.

**N. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS**

At August 31, 2016, 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.

**P. MAINTENANCE OF EFFORT**

The amount paid by the Center for employee health care premiums is as follows:

a. Total Center premium paid for health care for 2015-2016		\$	1,894,575
b. Subtract any non-medical expenditures:			
Life insurance	\$	<u>70,483</u>	<u>70,483</u>
c. 2015-2016 Maintenance of Effort		\$	<u><u>1,824,092</u></u>

**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 Part A	Title III Part A LEP
District	Member Districts	342	350
031909	Point Isabel ISD	\$ -	\$ -
031916	South Texas ISD	-	3,250
108804	Mid-Valley Academy	22,682	1,000
124901	Jim Hogg ISD	-	10,799
214902	San Isidro ISD	-	1,000
240801	Gateway Academy	21,030	7,800
240904	Webb CISD	-	1,468
245901	Lasara ISD	-	7,250
245904	San Perlita ISD	-	3,071
		<u>\$ 43,712</u>	<u>\$ 35,638</u>

**R. PRIOR PERIOD ADJUSTMENT**

The Center is required to reimburse the state \$430,991 for Early Childhood Intervention Program fund balance and has established a liability to be paid in the subsequent year. The effect was a decrease of fund balance/net position in the amount of \$430,991.

**REQUIRED SUPPLEMENTARY INFORMATION**

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, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis - See Note III A)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 17,289,767	\$ 19,084,025	\$ 18,474,635	\$ (609,390)
5800	State Program Revenues	1,184,325	2,174,362	3,024,249	849,887
5900	Federal Program Revenues	725,000	725,000	961,558	236,558
5020	Total Revenues	19,199,092	21,983,387	22,460,442	477,055
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	4,125,469	6,279,285	5,840,253	439,032
0012	Instructional Resources and Media Services	1,200,837	1,272,000	1,263,204	8,796
0013	Curriculum and Instructional Staff Development	4,511,593	5,145,110	4,610,343	534,767
0021	Instructional Leadership	286,149	412,117	398,806	13,311
0023	School Leadership	8,000	8,000	-	8,000
0041	General Administration	2,231,778	2,226,661	2,105,995	120,666
0051	Facilities Maintenance and Operations	1,046,652	866,105	827,632	38,473
0053	Data Processing Services	2,832,605	3,214,330	3,158,107	56,223
0061	Community Services	29,750	32,250	28,500	3,750
0062	School District Administrative Support (ESC Only)	2,926,259	2,904,993	2,701,543	203,450
6030	Total Expenditures	19,199,092	22,360,851	20,934,383	1,426,468
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(377,464)	1,526,059	1,903,523
<b>OTHER FINANCING SOURCES (USES):</b>					
7913	Capital Leases	-	-	117,527	117,527
8911	Transfers Out (Use)	-	(500,000)	(500,000)	-
7080	Total Other Financing Sources (Uses)	-	(500,000)	(382,473)	117,527
1200	Net Change in Fund Balances	-	(877,464)	1,143,586	2,021,050
0100	Fund Balance - September 1 (Beginning)	10,408,343	10,408,343	10,408,343	-
3000	Fund Balance - August 31 (Ending)	\$ 10,408,343	\$ 9,530,879	\$ 11,551,929	\$ 2,021,050

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, 2016

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0254251%	0.014951%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 8,987,434	\$ 3,993,619
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	9,336,464	7,143,012
Total	<u>\$ 18,323,898</u>	<u>\$ 11,136,631</u>
District's Covered-Employee Payroll	\$ 18,328,960	\$ 18,328,960
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	49.03%	21.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

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

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



REGION ONE EDUCATION SERVICE CENTER  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2016

EXHIBIT G-3

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

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

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

## **COMBINING STATEMENTS**

REGION ONE EDUCATION SERVICE CENTER  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2016

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	220 Adult Education Federal	223 TANF Family Assistance
<b>ASSETS</b>				
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -
1120	Investments - Current	-	-	-
1240	Receivables from Other Governments	43,250	427,656	29,841
1260	Due from Other Funds	-	-	-
1410	Prepayments	-	-	-
1000	<b>Total Assets</b>	<u>\$ 43,250</u>	<u>\$ 427,656</u>	<u>\$ 29,841</u>
<b>LIABILITIES</b>				
2110	Accounts Payable	\$ -	\$ 60,583	\$ 8,544
2160	Accrued Wages Payable	-	-	40,785
2170	Due to Other Funds	41,758	365,363	227,242
2180	Due to Other Governments	1,492	1,710	-
2300	Unearned Revenues	-	-	-
2000	<b>Total Liabilities</b>	<u>43,250</u>	<u>427,656</u>	<u>29,841</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 43,250</u>	<u>\$ 427,656</u>	<u>\$ 29,841</u>

225	226	241	244	263	289	342	350
IDEA - Part B Preschool	IDEA - Part B Discretionary	ESC Child Nutrition	Career and Technical - Basic Grant	Title III, A English Lang. Acquisition	Other Federal Special Revenue Funds	SSA - ESEA Title II,A Training	SSA - III, A English Lang. Acquisition
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
136,719	766,592	193,806	14,836	41,648	162,793	24,629	42,314
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 136,719</u>	<u>\$ 766,592</u>	<u>\$ 193,806</u>	<u>\$ 14,836</u>	<u>\$ 41,648</u>	<u>\$ 162,793</u>	<u>\$ 24,629</u>	<u>\$ 42,314</u>
\$ 3,800	\$ 16,051	\$ 11,534	\$ 1,077	\$ 2,751	\$ 70,780	\$ 8,858	\$ 11,750
-	-	-	-	-	-	-	-
130,895	748,854	167,453	13,759	38,897	92,013	6,914	4,626
2,024	1,687	14,819	-	-	-	8,857	25,938
-	-	-	-	-	-	-	-
<u>136,719</u>	<u>766,592</u>	<u>193,806</u>	<u>14,836</u>	<u>41,648</u>	<u>162,793</u>	<u>24,629</u>	<u>42,314</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 136,719</u>	<u>\$ 766,592</u>	<u>\$ 193,806</u>	<u>\$ 14,836</u>	<u>\$ 41,648</u>	<u>\$ 162,793</u>	<u>\$ 24,629</u>	<u>\$ 42,314</u>

REGION ONE EDUCATION SERVICE CENTER  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2016

Data Control Codes	385 Visually Impaired SSVI	405 ESC Gifted and Talented	429 Other State Special Revenue Funds	437 SSA Special Education	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 62,525	\$ 3,018
1120	Investments - Current	-	-	-	-
1240	Receivables from Other Governments	40,105	1,597	84,907	-
1260	Due from Other Funds	-	-	250,000	-
1410	Prepayments	-	-	-	-
1000	<b>Total Assets</b>	<u>\$ 40,105</u>	<u>\$ 1,597</u>	<u>\$ 397,432</u>	<u>\$ 3,018</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 1,222	\$ -	\$ 53,355	\$ -
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	38,883	1,597	-	-
2180	Due to Other Governments	-	-	80,796	-
2300	Unearned Revenues	-	-	263,281	-
2000	<b>Total Liabilities</b>	<u>40,105</u>	<u>1,597</u>	<u>397,432</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	3,018
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,018</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 40,105</u>	<u>\$ 1,597</u>	<u>\$ 397,432</u>	<u>\$ 3,018</u>

480	482	483	484	490	491	Total
Gates Foundation	RTI International	T-STEM Training	CTEP	Chapter 41	STAAR One Assessment	Nonmajor Governmental Funds
\$ -	\$ 28,412	\$ -	\$ -	\$ 79,591	\$ 75,225	\$ 248,771
-	-	500,000	-	1,000,000	-	1,500,000
-	-	7,925	-	1,670	94,459	2,391,318
-	-	-	-	-	-	250,000
-	-	-	-	-	420,995	420,995
<u>\$ -</u>	<u>\$ 28,412</u>	<u>\$ 507,925</u>	<u>\$ -</u>	<u>\$ 1,081,261</u>	<u>\$ 590,679</u>	<u>\$ 4,811,084</u>
\$ -	\$ -	\$ 827	\$ -	\$ 11,290	\$ -	\$ 262,422
-	-	-	-	-	-	47,424
-	-	3,428	-	-	590,679	2,495,563
-	-	-	-	-	-	137,323
-	28,412	-	-	-	-	291,693
<u>-</u>	<u>28,412</u>	<u>4,255</u>	<u>-</u>	<u>11,290</u>	<u>590,679</u>	<u>3,234,425</u>
-	-	503,670	-	1,069,971	-	1,576,659
-	-	503,670	-	1,069,971	-	1,576,659
<u>\$ -</u>	<u>\$ 28,412</u>	<u>\$ 507,925</u>	<u>\$ -</u>	<u>\$ 1,081,261</u>	<u>\$ 590,679</u>	<u>\$ 4,811,084</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, 2016

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	220 Adult Education Federal	223 TANF Family Assistance
<b>REVENUES:</b>				
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-
5900	Federal Program Revenues	144,486	1,224,566	3,101,714
5020	Total Revenues	<u>144,486</u>	<u>1,224,566</u>	<u>3,101,714</u>
<b>EXPENDITURES:</b>				
Current:				
0011	Instruction	-	1,859,291	254,290
0013	Curriculum and Instructional Staff Development	27,465	773,859	74,510
0021	Instructional Leadership	27,905	165,239	143,865
0023	School Leadership	-	626,116	24,306
0031	Guidance, Counseling and Evaluation Services	-	-	65,146
0041	General Administration	-	-	-
0051	Facilities Maintenance and Operations	8,595	61,366	294,315
0053	Data Processing Services	2,819	68,048	103,617
0061	Community Services	-	29,572	-
0062	School District Administrative Support (ESC Only)	77,702	126,482	-
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-
6030	Total Expenditures	<u>144,486</u>	<u>1,224,566</u>	<u>3,101,714</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
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>

225	226	241	244	263	289	342	350
IDEA - Part B Preschool	IDEA - Part B Discretionary	ESC Child Nutrition	Career and Technical - Basic Grant	Title III, A English Lang. Acquisition	Other Federal Special Revenue Funds	SSA - ESEA Title II, A Training	SSA - III, A English Lang. Acquisition
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
<u>311,312</u>	<u>2,125,779</u>	<u>783,353</u>	<u>55,933</u>	<u>132,359</u>	<u>374,386</u>	<u>61,427</u>	<u>43,114</u>
<u>311,312</u>	<u>2,125,779</u>	<u>783,353</u>	<u>55,933</u>	<u>132,359</u>	<u>374,386</u>	<u>61,427</u>	<u>43,114</u>
-	4,019	-	-	-	-	-	668
302,430	1,724,896	-	52,949	122,336	299,420	40,513	31,899
-	97,856	-	-	-	2,552	-	-
-	-	-	-	-	-	-	-
-	7,938	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,473	115,188	45,435	1,259	6,952	5,207	2,234	-
3,409	69,182	11,943	1,725	3,071	3,411	965	-
-	-	-	-	-	-	-	-
-	106,700	725,975	-	-	63,796	-	-
-	-	-	-	-	-	17,715	10,547
<u>311,312</u>	<u>2,125,779</u>	<u>783,353</u>	<u>55,933</u>	<u>132,359</u>	<u>374,386</u>	<u>61,427</u>	<u>43,114</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, 2016

Data Control Codes	385 Visually Impaired SSVI	405 ESC Gifted and Talented	429 Other State Special Revenue Funds	437 SSA Special Education
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 332,420	\$ -
5800 State Program Revenues	297,996	10,681	232,799	40,680
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>297,996</u>	<u>10,681</u>	<u>565,219</u>	<u>40,680</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	192,440	-	-	29,818
0013 Curriculum and Instructional Staff Development	90,363	10,681	320,229	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	11,485	-	7,978	3,834
0053 Data Processing Services	3,708	-	4,212	4,010
0061 Community Services	-	-	12,740	-
0062 School District Administrative Support (ESC Only)	-	-	220,060	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030 Total Expenditures	<u>297,996</u>	<u>10,681</u>	<u>565,219</u>	<u>37,662</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,018</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
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	-	-	-	3,018
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>\$ 3,018</u>

480	482	483	484	490	491	Total
Gates Foundation	RTI International	T-STEM Training	CTEP	Chapter 41	STAAR One Assessment	Nonmajor Governmental Funds
\$ -	\$ 44,074	\$ 192,237	\$ -	\$ 725	\$ 274,781	\$ 844,237
-	-	-	-	-	-	582,156
-	-	-	-	-	-	8,765,745
-	44,074	192,237	-	725	274,781	10,192,138
-	9,669	64,136	-	-	-	2,414,331
2,592	22,405	260,163	436	159,991	324,010	4,641,147
-	-	-	-	182,334	1,812	645,869
-	-	-	-	-	-	691,262
-	-	-	-	-	-	7,938
-	-	-	-	-	66	66
-	-	29,677	-	72,418	6,372	724,344
-	12,000	3,510	-	6,390	9,991	329,029
-	-	-	-	-	-	42,312
-	-	-	-	209,123	-	1,529,838
-	-	-	-	-	-	28,262
2,592	44,074	357,486	436	630,256	342,251	11,054,398
(2,592)	-	(165,249)	(436)	(629,531)	(67,470)	(862,260)
-	-	-	-	-	75,225	75,225
-	-	(75,225)	-	-	-	(75,225)
-	-	(75,225)	-	-	75,225	-
(2,592)	-	(240,474)	(436)	(629,531)	7,755	(862,260)
2,592	-	744,144	436	1,699,502	(7,755)	2,438,919
\$ -	\$ -	\$ 503,670	\$ -	\$ 1,069,971	\$ -	\$ 1,576,659

REGION ONE EDUCATION SERVICE CENTER  
 COMBINING STATEMENT OF NET POSITION  
 INTERNAL SERVICE FUNDS  
 AUGUST 31, 2016

	752	754	799	
	Print Shop	Computer Operations	Internal Service Funds	Total Internal Service Funds
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 5,938	\$ 3,299	\$ 4,754	\$ 13,991
Investments - Current	700,000	200,000	4,200,000	5,100,000
Due from Other Governments	206,186	75	154,370	360,631
Due from Other Funds	90,000	160,000	145,000	395,000
Inventories	1,298	-	-	1,298
Other Current Assets	-	-	403	403
Total Current Assets	<u>1,003,422</u>	<u>363,374</u>	<u>4,504,527</u>	<u>5,871,323</u>
Noncurrent Assets:				
Capital Assets:				
Buildings and Improvements	-	-	85,813	85,813
Depreciation on Buildings	-	-	(11,262)	(11,262)
Furniture and Equipment	55,930	226,565	318,538	601,033
Depreciation on Furniture and Equipment	(55,930)	(60,276)	(294,554)	(410,760)
Total Noncurrent Assets	<u>-</u>	<u>166,289</u>	<u>98,535</u>	<u>264,824</u>
Total Assets	<u>1,003,422</u>	<u>529,663</u>	<u>4,603,062</u>	<u>6,136,147</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	20,074	9,609	243,211	272,894
Total Current Liabilities	<u>20,074</u>	<u>9,609</u>	<u>243,211</u>	<u>272,894</u>
NonCurrent Liabilities:				
Other Long-Term Debt	-	78,351	-	78,351
Total Noncurrent Liabilities	<u>-</u>	<u>78,351</u>	<u>-</u>	<u>78,351</u>
Total Liabilities	<u>20,074</u>	<u>87,960</u>	<u>243,211</u>	<u>351,245</u>
<b>NET POSITION</b>				
Unrestricted Net Position	<u>983,348</u>	<u>441,703</u>	<u>4,359,851</u>	<u>5,784,902</u>
Total Net Position	<u>\$ 983,348</u>	<u>\$ 441,703</u>	<u>\$ 4,359,851</u>	<u>\$ 5,784,902</u>

REGION ONE EDUCATION SERVICE CENTER  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2016

	752	754	799	Total
	Print Shop	Computer Operations	Internal Service Funds	Internal Service Funds
<b>OPERATING REVENUES:</b>				
Local and Intermediate Sources	\$ 480,005	\$ 527,666	\$ 2,514,974	\$ 3,522,645
Total Operating Revenues	<u>480,005</u>	<u>527,666</u>	<u>2,514,974</u>	<u>3,522,645</u>
<b>OPERATING EXPENSES:</b>				
Payroll Costs	97,578	391,418	359,503	848,499
Professional and Contracted Services	170,334	112,282	1,622,777	1,905,393
Supplies and Materials	63,901	21,490	88,246	173,637
Other Operating Costs	-	9,165	94,002	103,167
Depreciation Expense	-	40,818	15,708	56,526
Debt Service	-	-	477,920	477,920
Total Operating Expenses	<u>331,813</u>	<u>575,173</u>	<u>2,658,156</u>	<u>3,565,142</u>
Operating Income (Loss)	148,192	(47,507)	(143,182)	(42,497)
Total Net Position - September 1 (Beginning)	<u>835,156</u>	<u>489,210</u>	<u>4,503,033</u>	<u>5,827,399</u>
Total Net Position August 31 (Ending)	<u>\$ 983,348</u>	<u>\$ 441,703</u>	<u>\$ 4,359,851</u>	<u>\$ 5,784,902</u>

REGION ONE EDUCATION SERVICE CENTER  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2016

	752	754	799	
	Print Shop	Computer Operations	Internal Service Funds	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>				
Cash Received from User Charges	\$ 330,492	\$ 527,916	\$ 2,491,488	\$ 3,349,896
Cash Received from Other	2,747	-	-	2,747
Cash Payments to Employees for Services	(97,577)	(391,418)	(359,503)	(848,498)
Cash Payments for Contracted Services	(170,334)	(112,282)	(1,622,777)	(1,905,393)
Cash Payments for Suppliers	(59,390)	(124,211)	(76,514)	(260,115)
Cash Payments for Other Operating Expenses	-	(9,165)	(128,247)	(137,412)
Cash Payment for Debt Service	-	-	(477,920)	(477,920)
Net Cash Provided by (Used for) Operating Activities	<u>5,938</u>	<u>(109,160)</u>	<u>(173,473)</u>	<u>(276,695)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>				
Acquisition of Capital Assets	-	(165,892)	(72,408)	(238,300)
<u>Cash Flows from Investing Activities:</u>				
Proceeds from Capital Leases	-	78,351	-	78,351
Net Increase (Decrease) in Cash and Cash Equivalents	5,938	(196,701)	(245,881)	(436,644)
Cash and Cash Equivalents at Beginning of Year	700,000	400,000	4,450,635	5,550,635
Cash and Cash Equivalents at End of Year	<u>\$ 705,938</u>	<u>\$ 203,299</u>	<u>\$ 4,204,754</u>	<u>\$ 5,113,991</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</u>				
Operating Income (Loss):	\$ 148,192	\$ (47,507)	\$ (143,182)	\$ (42,497)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:				
Depreciation	-	40,818	15,708	56,526
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in Receivables	(149,513)	249	(23,485)	(172,749)
Decrease (increase) in Inventories	7,392	-	-	7,392
Decrease (increase) in Due from Other Funds	2,747	(99,300)	(34,245)	(130,798)
Increase (decrease) in Accounts Payable	(2,880)	4,080	14,458	15,658
Increase (decrease) in Due to Other Governments	-	(7,500)	(2,727)	(10,227)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 5,938</u>	<u>\$ (109,160)</u>	<u>\$ (173,473)</u>	<u>\$ (276,695)</u>

# **FEDERAL AWARDS SECTION**



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

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

Board of Directors  
Region One Education Service Center  
Edinburg, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2016, 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 14, 2016.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

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***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*.

**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 black ink that reads "Patillo, Brown & Hill, C.P." The signature is written in a cursive style and is positioned above a light gray rectangular box.

Brownsville, Texas  
December 14, 2016





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

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

Board of Directors  
Region One Education Service Center  
Edinburg, Texas

**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 Region One Education Service Center's major federal programs for the year ended August 31, 2016. Region One Education Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Region One Education Service Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Region One Education Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Region One Education Service Center's compliance.

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### ***Opinion on Each Major Federal Program***

In our opinion, Region One Education Service Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

### **Report on Internal Control over Compliance**

Management of Region One Education Service Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Region One Education Service Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Region One Education Service Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, 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.



Brownsville, Texas  
December 14, 2016

REGION ONE EDUCATION SERVICE CENTER  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED AUGUST 31, 2016

**SECTION I – Summary of Auditors’ Results**

<b>Financial Statements</b>			
	Type of auditors’ report issued:	Unmodified	
	Internal control over financial reporting: • Material weakness(es) identified?	___ Yes	__X__ No
	• Significant deficiency(ies) identified not considered to be material weaknesses?	___ Yes	__X__ None Reported
	Noncompliance material to financial statements noted?	___ Yes	__X__ No

<b>Federal Awards</b>			
	Internal control over major programs: • Material weakness(es) identified?	___ Yes	__X__ No
	• Significant deficiency(ies) identified not considered to be material weaknesses?	___ Yes	__X__ None Reported
	Type of auditors’ report issued on compliance for major programs	Unmodified	
	Any audit findings disclosed that are required to be reported accordance with 2 CFR 200.516(a)?	___ Yes	__X__ No

<b>Identification of Major Programs</b>			
	<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	
	84.002A 93.558	Adult Basic Education Temporary Assistance for Needy Families	
	Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
	Auditee qualified as low-risk auditee?	__X__ Yes	___ No

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

None.

**SECTION III – Findings and Questioned Costs for Federal Awards.**

None.

REGION ONE EDUCATION SERVICE CENTER  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2016

**Program**

Not applicable

REGION I EDUCATION SERVICE CENTER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2016

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures & Indirect Cost
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Texas Department of Agriculture:</i>			
ESC Child Nutrition Program	10.560	108-950	\$ 66,899
ESC Child Nutrition Program	10.560	108-950	<u>760,650</u>
Total CFDA 10.560			<u>827,549</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>827,549</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Direct Programs:</i>			
Title IV, GEAR UP Program	84.334A	P334A110180	<u>6,838,902</u>
Total CFDA 84.334A			<u>6,838,902</u>
Total Direct Programs			<u>6,838,902</u>
<i>Passed Through State Department of Education:</i>			
ESEA Title 1, Part A Focus Schools	84.010A	3160	122,711
ESEA Title 1, Part A	84.010A	3457	<u>29,927</u>
Total CFDA 84.010A			<u>152,638</u>
ESEA Title 1, Part C, - Migratory Children	84.011A	1561500271101	26,528
ESEA Title 1, Part C, - Migratory Children	84.011A	3457	1,192,127
ESEA Title 1, Part C, - Migrant Special Project OSY	84.011A	3457	<u>75,000</u>
Total CFDA 84.011A			<u>1,293,655</u>
ESEA Title III, Part A - ELA	84.365A	1567100271101	32,150
ESEA Title III, Part A - ELA	84.365A	3457	102,213
ESEA Title III, Part A - LEP	84.365A	16671001108950	<u>43,114</u>
Total CFDA 84.365A			<u>177,477</u>
IDEA - Part B - Pre-School	84.173	1566102271101	40,949
IDEA - Part B - Pre-School	84.173	3406	<u>287,927</u>
Total CFDA 84.173			<u>328,877</u>
IDEA - Part B Discretionary	84.027A	1566002271101	181,359
IDEA - Part B - Leadership	84.027A	3406	1,664,873
IDEA - Part B - Charter School Support	84.027A	3406	24,305
IDEA - Part B - FIEP Support	84.027A	3406	1,383
IDEA - Part B - Access General Curriculum	84.027A	3406	196,284
IDEA - Part B - PBIS & Restorative Practices	84.027A	3406	105,842
IDEA - Part B Discretionary - Sensory Impairments	84.027A	166600021089506674	26,671
IDEA - Part B Discretionary	84.027A	1666002271101	<u>47,444</u>
Total CFDA 84.027A			<u>2,248,160</u>

REGION I EDUCATION SERVICE CENTER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2016

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures & Indirect Cost
Vocational Education-Admin	84.048	3354	5,815
Career Technology Education - Leadership	84.048	3354	1,993
Career Technology Education - PBM/Admin.	84.048	3354	1,662
Career Technology Education - Nontraditional Leadership	84.048	3354	872
Vocational Education-Admin	84.048	3354	22,476
Career Technology Education - Leadership	84.048	3354	11,997
Career Technology Education - PBM/Admin.	84.048	3354	9,023
Career Technology Education - Nontraditional Leadership	84.048	3354	5,250
Total CFDA 84.048			<u>59,087</u>
ESEA, Title II, TPTR	84.367A	16694501108950	63,893
Total CFDA 84.367A			<u>63,893</u>
NCLB Support	84.999	3457	71,655
Total CFDA 84.999			<u>71,655</u>
TLI ESC Collaborative	84.371C	156460547110001	11,811
Total CFDA 84.371C			<u>11,811</u>
Total Passed Through State Dept. of Education			<u>4,407,255</u>
<i>Passed Through University of Texas at Austin:</i>			
Texas Reg. Collaborative - Science	84.366B	156944047110001	128,068
Texas Reg. Collaborative - Science	84.366B	166944047110001	41,314
Texas Reg. Collaborative - Math	84.366B	156944047110001	73,940
Texas Reg. Collaborative - Math	84.366B	166944047110001	68,248
Total CFDA 84.366B			<u>311,570</u>
<i>Passed Through Department of Assistive &amp; Rehabilitative Services (DARS) Division for Early Childhood Intervention Services:</i>			
Special Education-Grants to States	84.027	5382001567	20,711
Total CFDA 84.027			<u>20,711</u>
Special Education-Grants for Infants & Families with Disabilities	84.181	5382001567	182,650
Total CFDA 84.181			<u>182,650</u>
Total Passed Through Dept. of Assistive & Rehab. Services (DARS)			<u>203,361</u>
<i>Passed Through Texas Workforce Commission:</i>			
Adult Basic Education - Federal	84.002A	2314AELA00	226,159
Adult Basic Education - Distance Learning	84.002A	2314AELA00	69,776
Adult Basic Education - Civics	84.002A	2314AELA00	81,295
Adult Basic Education - Federal	84.002A	2314AELB00	2,268,682
Adult Basic Education - Professional Development	84.002A	2314AELB00	48,311

REGION I EDUCATION SERVICE CENTER  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED AUGUST 31, 2016

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures & Indirect Cost
Adult Basic Education - Civics	84.002A	2314AELB00	208,949
Adult Basic Education - Federal	84.002A	2316AEL002	308,553
Adult Basic Education - Professional Development	84.002A	2316AEL002	11,356
Adult Basic Education - Career Pathways Navigator	84.002A	2316AEL001	15,245
Adult Basic Education - Civics	84.002A	2316AEL002	27,548
Total CFDA 84.002A			<u>3,265,873</u>
 Total Pass Through Texas Workforce Commission			<u>3,265,873</u>
 TOTAL U.S. DEPARTMENT OF EDUCATION			<u>15,026,961</u>
 <b>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>			
<i>Passed Through Texas Workforce Commission:</i>			
Temporary Assistance for Needy Families (TANF)	93.558	2314AELA00	2,701
Temporary Assistance for Needy Families (TANF)	93.558	2314AELB00	378,463
Temporary Assistance for Needy Families (TANF)	93.558	2316AEL002	48,206
Total CFDA 93.558			<u>429,369</u>
 <i>Passed Through Department of Assistive &amp; Rehabilitative Services (DARS) Division for Early Childhood Intervention Services:</i>			
Special Education-Temporary Assistance for Needy Families	93.558	5382001567	44,973
Total CFDA 93.558			<u>44,973</u>
 Total CFDA 93.558			<u>474,343</u>
 <i>Passed Through Texas Department of Assistive &amp; Rehabilitative Services:</i>			
Medicaid Administrative Claiming Program	93.778	529-11-0040-000-16	283,356
Total CFDA 93.778			<u>283,356</u>
 TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			<u>757,698</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 16,612,208</u>

REGION ONE EDUCATION SERVICE CENTER  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2016

**1. GENERAL**

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of Region One Education Service Center. The Center's reporting entity is defined in Note 1 of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

Federal funds revenues for indirect costs are reported in the General Fund. All other federal programs are accounted for and reported in Special Revenue Funds.

**2. BASIS OF ACCOUNTING AND PRESENTATION**

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The Center's significant accounting policies, including the modified accrual basis of accounting, are presented in Note 1 of the basic financial statements.

The Schedule of Expenditures of Federal Awards is presented 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). Therefore, some of the amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



SCHOOLS FIRST QUESTIONNAIRE

Region One Education Service Center

Fiscal Year 2016

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SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	0
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	8987434
SF13	Pension Expense (6147) at fiscal year-end.	774766