

**REGION ONE  
EDUCATION SERVICE CENTER**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
AUGUST 31, 2013**

REGION ONE EDUCATION SERVICE CENTER  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2013

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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, 2013 at a meeting of the Board of Directors of such service center on the \_\_\_\_\_ day of December, 2013.

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

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

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Region One Education Service Center  
Edinburg, Texas

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 (the "Center") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Center'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 Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***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, 2013, and the respective changes in financial position, and, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial 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 12, 2013, 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 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.



Brownsville, Texas  
December 12, 2013



# Region One Education Service Center

1900 W. Schunior ♦ Edinburg, TX 78541 ♦ Phone (956) 984-6000 Fax (956) 984-7655

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, 2013. Please read it in conjunction with the Center's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

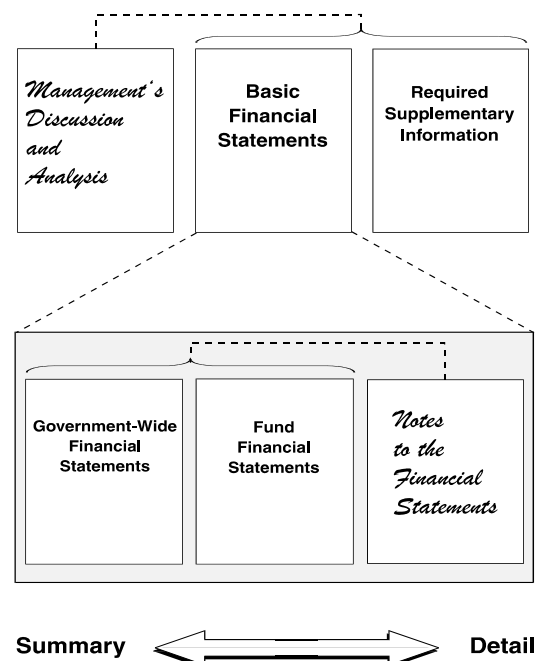
- The Center's total combined net assets were \$28,844,309 at August 31, 2013, which reflects an increase of less than 1% between fiscal years 8/31/12 and 8/31/13.
- During the year, the Center's expenses were \$57,201 less than the \$36,947,505 generated in local charges and other revenues for governmental activities. This is less than last year, when revenues exceeded expenses by \$2,746,490.
- The general fund reported an excess of revenues over expenditures this year of \$313,724 and \$1,100,000 was transferred from the general fund to the construction fund which decreased the fund balance this year to \$4,513,856.

### 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

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



*trustee 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 increased by less than 1%, to approximately \$28,844,309 between the fiscal years 2012 and 2013 (See Table A-1).

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

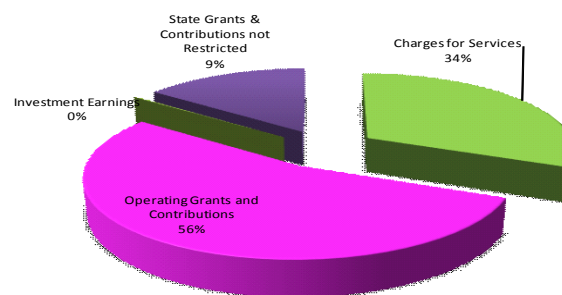
	<b>Governmental Activities</b>		<b>Total</b>
	<b>2012</b>	<b>2013</b>	<b>% Change</b>
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 11,405,564	\$ 11,533,891	1.13%
Current investments	17,934,187	20,766,269	15.79%
Due from other governments	3,036,663	3,123,258	2.85%
Allowance for uncollectibles	(75,856)	(75,856)	0.00%
Other receivables	1,687,665	642,828	-61.91%
Inventories-supplies	5,065	3,065	-39.49%
Other current assets	1,910	4,881	155.55%
Total Current Assets	33,995,198	35,998,336	5.89%
<b>Noncurrent Assets:</b>			
Land	110,473	110,473	0.00%
Building	14,012,938	14,899,966	6.33%
Leased property under capital leases	5,177,406	5,177,406	0.00%
Furniture and equipment	3,651,653	3,469,107	-5.00%
Library books and media	1,395,644	1,395,644	0.00%
Construction in progress	-	41,428	
Less: Accumulated depreciation	(10,166,914)	(10,774,451)	5.98%
Total Noncurrent Assets	14,181,200	14,319,573	0.98%
<b>Total Assets</b>	<b>48,176,398</b>	<b>50,317,909</b>	<b>4.45%</b>
<b>Current Liabilities:</b>			
Accounts payable and accrued liabilities	10,343,828	11,906,082	15.10%
Payroll deductions & withholdings	262,058	273,347	4.31%
Due to Fiduciary Funds	4,608	-	-100.00%
Due to other governments	146,123	-	-100.00%
Deferred revenue	6,732,093	7,872,551	16.94%
Capital lease payable current year	478,960	500,280	4.45%
Total Current Liabilities	17,967,670	20,552,260	14.38%
<b>Long-Term Liabilities:</b>			
Capital lease payable after one year	1,421,620	921,340	-35.19%
<b>Total Liabilities</b>	<b>19,389,290</b>	<b>21,473,600</b>	<b>10.75%</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	12,280,620	12,856,525	4.69%
Restricted for federal and state program	4,771,833	4,425,194	0.00%
Restricted for state program	-	-	0.00%
Restricted for capital projects	3,341,182	2,882,879	-13.72%
Restricted for other purposes	2,064,500	1,342,068	-34.99%
Unrestricted net assets	6,328,973	7,337,643	15.94%
<b>Total Net Assets</b>	<b>\$ 28,787,108</b>	<b>\$ 28,844,309</b>	<b>0.20%</b>

(1) Unrestricted net assets showed a \$7.3 million surplus at the end of this year. This surplus represents an increase of 15.9% from last year's surplus and 20% of the Center's operating budget. The \$7,337,643 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 decreased by 6.42% to \$36,947,505. A significant portion, 56%, of the Center's revenue comes from operating grants. (See Figure A-3.) 8.8% comes from ESC state-grants not restricted, while 34% relates to charges for services.

The total cost of all programs and services increased by less than 1% to \$36,890,304; the instruction and instructional related services and student services functions represent 54% of these costs.



## Governmental Activities

- Investment earnings increased by approximately 11% due to an increase in the portfolio. Charges for services decreased by 2.6% from \$12,777,806 to \$12,450,405.
- Grants not restricted represent revenues for claims for Medicare and other insurances. These funds decreased by 4% from \$3,399,785 to 3,261,399 due to a decrease in the indirect cost rate. The state aid – formula grants represent state funds received for Center operations. These funds decreased by less than 1% due to a decrease in the allocation by the state. The miscellaneous local and intermediate revenues decrease by 92% due to STARR Item Bank and T-STEM. Over all, funds received for center operations decreased by 6.42%.
- Operating grants and contributions represent federal and state funds restricted for a specific program. The Center obtained approximately \$2,536,477 less federal and state grants as compared to last year.

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>% Change</u></b>
<b>Program Revenues:</b>			
Charges for services	\$ 12,777,806	\$ 12,450,405	-2.56%
Operating grants and contributions	20,856,639	20,737,964	-0.57%
Grants and contributions not restricted	3,399,785	3,261,399	-4.07%
Investment earnings	65,135	72,616	11.49%
State aid - formula grants	260,133	258,536	-0.61%
Miscellaneous local and intermediate revenue	2,124,484	166,585	-92.16%
<b>Total Revenues</b>	<b>39,483,982</b>	<b>36,947,505</b>	<b>-6.42%</b>
<b>Program Expenses:</b>			
Instruction	6,134,106	6,554,841	6.86%
Instructional resources media services	1,380,930	1,225,733	-11.24%
Curriculum dev. and instructional staff dev.	11,935,442	12,175,029	2.01%
Instructional leadership	1,438,452	1,490,477	3.62%
School leadership	827,932	532,645	-35.67%
Guidance, counseling, and evaluation services	7,718	7,881	2.11%
Social Work	55,336	-	-100.00%
Student (pupil)	506	505	-0.20%
General administration	1,658,451	1,909,991	15.17%
Plant and maintenance	2,066,550	1,831,876	-11.36%
Security and monitoring	-	37,155	100.00%
Data processing services	4,050,671	3,901,314	-3.69%
Community services	253,552	220,682	-12.96%
School district administrative support	3,514,505	3,226,676	-8.19%

Debt service	108,998	88,458	-18.84%
Payments to fiscal agent/member dist.-SSA	3,304,343	3,687,041	11.58%
Total Expenditures	36,737,492	36,890,304	0.42%
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 2,746,490</b>	<b>\$ 57,201</b>	<b>-97.92%</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 decreased by less than 1% this year ending at \$36,890,304. Some of the cost was paid by those who directly benefited from the programs' \$12,450,405 or by grants and contributions totaling \$20,737,964.

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

	Total Cost of Services		Total
	<u>2012</u>	<u>2013</u>	<u>% Change</u>
Instruction	\$6,134,106	\$6,554,841	6.86%
Instructional Resources and Media Services	1,380,930	1,225,733	-11.24%
Curriculum Dev. And Instructional Staff Dev.	11,935,442	12,175,029	2.01%
Instructional Leadership	1,438,452	1,490,477	3.62%
School Leadership	827,932	532,645	-35.67%
Plant Maintenance & Operations	2,066,550	1,831,876	-11.36%
Data Processing Services	4,050,671	3,901,314	-3.69%
School District Administration Support (ESC only)	3,514,505	3,226,676	-8.19%
Debt Service - Interest & Sinking	108,998	88,458	-18.84%

## **FINANCIAL ANALYSIS OF THE CENTER'S FUNDS**

Revenues from governmental fund types totaled \$36,947,505, a decrease of less than 6.42% over the preceding year. The decrease in local revenues is a result of a decrease in miscellaneous local and intermediate revenue. The decrease in operating grants and contributions of less than 1% is primarily due a decrease in grant allocation. The decrease of 4% in grants and contributions not restricted is due to a decrease in the indirect cost rate. Expenditures from governmental fund types totaled \$36,890,304, an increase of less than 1% over the preceding year. The decrease in the Instructional Resources and Media Services functions are primarily a decrease in services. The decrease in the School Leadership function is primarily due to a reclassification of expenses in the Early Childhood Intervention program. The decrease in Debt Service - Interest & Sinking is due to less interest expense.

### **General Fund Budgetary Highlights**

Over the course of the year, the Center revised its budget approximately 12 times. Actual expenditures were \$2,115,741 below final budget amounts. Several local programs realized lower than projected revenues due to a decrease in participants in staff development sessions.

On the other hand, resources available were \$1,554,703 under the final budgeted amount. As noted earlier:

- Several local programs realized lower than projected revenues due to an decrease in participants in staff development sessions.

## CAPITAL ASSETS

At the end of 2013, the Center had invested \$25,052,595 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents an increase of \$704,481 or 2.9% over last year. The second floor shell space in the administration building was completed as well as audio visual equipment was purchased for the meeting rooms.

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>% Change</u></b>
Land	\$ 110,473	\$ 110,473	0.00%
Buildings and improvements	14,012,938	14,899,965	6.33%
Capital leases	5,177,406	5,177,406	0.00%
Equipment	3,651,653	3,469,108	-5.00%
Library books & media	<u>1,395,644</u>	<u>1,395,644</u>	0.00%
Totals at historic cost	<u>24,348,114</u>	<u>25,052,596</u>	2.89%
Total accumulated depreciation	<u>(10,166,914)</u>	<u>(10,774,451)</u>	5.98%
Net capital assets	<u>\$ 14,181,200</u>	<u>\$ 14,278,145</u>	0.68%

The Center's fiscal year 2012-13 capital budget projects has earmarked an additional \$500,000 for construction; principally for the renovations of Laredo satellite office and Adult Education space needs. 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 2013-2014.

These indicators were taken into account when adopting the general fund budget for 2013. Amounts available for appropriation in the general fund budget are \$15,285,844 a decrease of 8.9% under the final 2013 budget of \$16,782,772. The original budget for 2013-14 represents very conservative figures.

Expenditures are budgeted to decrease by 7.2% to \$15,285,844. The decrease is due to a reclassification for the Early Childhood Intervention 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 2013.

## 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, 2013

Data Control Codes		Governmental Activities
<hr/>		
ASSETS		
1110	Cash and Cash Equivalents	\$ 11,533,891
1120	Current Investments	20,766,269
1230	Allowance for Uncollectible Taxes	(75,856)
1240	Due from Other Governments	3,123,258
1290	Other Receivables, net	642,828
1300	Inventories	3,065
1490	Other Current Assets	4,881
	Capital Assets:	
1510	Land	110,473
1520	Buildings, Net	10,219,685
1530	Furniture and Equipment, Net	280,848
1550	Leased Property Under Capital Leases, Net	2,271,495
1560	Library Books and Media, Net	1,395,644
1580	Construction in Progress	41,428
		<hr/>
1000	Total Assets	50,317,909
		<hr/>
LIABILITIES		
2110	Accounts Payable	11,906,082
2150	Payroll Deductions & Withholdings	273,347
2300	Unearned Revenue	7,872,551
	Noncurrent Liabilities	
2501	Due Within One Year	500,280
2502	Due in More Than One Year	921,340
		<hr/>
2000	Total Liabilities	21,473,600
		<hr/>
NET POSITION		
3200	Net Investment in Capital Assets	12,856,525
3820	Restricted for Federal and State Programs	4,425,194
3860	Restricted for Capital Projects	2,882,879
3890	Restricted for Other Purposes	1,342,068
3900	Unrestricted	7,337,643
		<hr/>
3000	Total Net Position	\$ 28,844,309
		<hr/> <hr/>

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, 2013

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 6,554,841	\$ 1,563,695	\$ 4,437,063	\$ (554,083)
12 Instructional Resources and Media Services	1,225,733	879,578	9,226	(336,929)
13 Curriculum and Staff Development	12,175,029	3,361,342	7,795,838	(1,017,849)
21 Instructional Leadership	1,490,477	403,921	1,029,538	(57,018)
23 School Leadership	532,645	-	532,645	-
31 Guidance, Counseling and Evaluation Services	7,881	-	7,881	-
34 Student (Pupil) Transportation	505	-	-	(505)
41 General Administration	1,909,991	1,368,233	90,954	(450,804)
51 Facilities Maintenance and Operations	1,831,876	650,285	1,410,190	228,599
52 Security and Monitoring Services	37,155	-	-	(37,155)
53 Data Processing Services	3,901,314	2,561,925	571,923	(767,466)
61 Community Services	220,682	-	151,458	(69,224)
62 School District Administrative Support (ESC)	3,226,676	1,563,695	1,014,207	(648,774)
72 Debt Service - Interest on Long Term Debt	88,458	97,731	-	9,273
93 Payments related to Shared Services Arrangements	3,687,041	-	3,687,041	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 36,890,304	\$ 12,450,405	\$ 20,737,964	(3,701,935)
Data Control Codes	General Revenues:			
	Taxes:			
SF	State Aid - Formula Grants			258,536
GC	Grants and Contributions not Restricted			3,261,399
IE	Investment Earnings			72,616
MI	Miscellaneous Local and Intermediate Revenue			166,585
TR	Total General Revenues			3,759,136
CN	Change in Net Position			57,201
NB	Net Position - Beginning			28,787,108
NE	Net Position--Ending			\$ 28,844,309

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

REGION ONE EDUCATION SERVICE CENTER  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2013

Data Control Codes	10 General Fund	274 GEAR Up	490 Chapter 41
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ 2,134,125
1120 Investments - Current	20,766,269	-	-
1230 Allowance for Uncollectible Receivables (Credit)	(74,746)	-	-
1240 Receivables from Other Governments	225,620	1,076,665	-
1260 Due from Other Funds	41,311	15	-
1290 Other Receivables	455,927	-	-
1580 Construction in Progress	-	-	-
1000 Total Assets	<u>\$ 21,414,381</u>	<u>\$ 1,076,680</u>	<u>\$ 2,134,125</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 8,886,128	\$ 1,076,555	\$ -
2150 Payroll Deductions and Withholdings Payable	273,347	-	-
2170 Due to Other Funds	41,242	125	-
2300 Deferred Revenues	7,699,808	-	-
2000 Total Liabilities	<u>16,900,525</u>	<u>1,076,680</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	2,134,125
3480 Retirement of Long-Term Debt	500,000	-	-
3490 Other Restricted Fund Balance	842,068	-	-
Committed Fund Balance:			
3510 Construction	500,000	-	-
3600 Unassigned Fund Balance	2,671,788	-	-
3000 Total Fund Balances	<u>4,513,856</u>	<u>-</u>	<u>2,134,125</u>
4000 Total Liabilities and Fund Balances	<u>\$ 21,414,381</u>	<u>\$ 1,076,680</u>	<u>\$ 2,134,125</u>

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

60 Capital Projects	Other Nonmajor Funds	Total Governmental Funds
\$ 2,341,451	\$ 2,342,942	\$ 6,818,518
-	-	20,766,269
-	-	(74,746)
-	1,820,973	3,123,258
-	41	41,367
-	122,234	578,161
41,428	-	41,428
<u>\$ 2,382,879</u>	<u>\$ 4,286,190</u>	<u>\$ 31,294,255</u>
\$ -	\$ 1,822,378	\$ 11,785,061
-	-	273,347
-	-	41,367
-	172,743	7,872,551
-	1,995,121	19,972,326
-	2,291,069	4,425,194
-	-	500,000
-	-	842,068
2,382,879	-	2,882,879
-	-	2,671,788
<u>2,382,879</u>	<u>2,291,069</u>	<u>11,321,929</u>
<u>\$ 2,382,879</u>	<u>\$ 4,286,190</u>	<u>\$ 31,294,255</u>



REGION ONE EDUCATION SERVICE CENTER  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 AUGUST 31, 2013

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 11,321,929</b>
<b>1</b> The Center uses internal service funds to charge the costs of certain activities, such as printing, space management, and technology 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.	4,738,789
<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 \$24,348,114 and the accumulated depreciation was \$10,166,914. In addition, long-term liabilities, including capital leases, 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 increase net position.	12,280,620
<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 2013 capital outlays and debt principal payments is to increase net position.	1,487,897
<b>4</b> The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.	(911,992)
<b>5</b> Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include eliminating interfund transactions and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to (decrease) net position.	(72,934)
<b>19 Net Position of Governmental Activities</b>	<u><u>\$ 28,844,309</u></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, 2013

Data Control Codes	10 General Fund	274 GEAR Up	490 Chapter 41
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 12,523,021	\$ -	\$ -
5800 State Program Revenues	1,404,414	-	-
5900 Federal Program Revenues	2,855,337	7,618,763	-
5020 Total Revenues	16,782,772	7,618,763	-
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	2,250,423	1,456,028	-
0012 Instructional Resources and Media Services	1,182,373	-	-
0013 Curriculum and Instructional Staff Development	4,157,603	2,642,753	452,885
0021 Instructional Leadership	489,828	160,690	-
0023 School Leadership	5,242	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-
0041 General Administration	1,870,692	-	-
0051 Facilities Maintenance and Operations	777,857	74,189	52,739
0053 Data Processing Services	3,428,651	30,210	7,600
0061 Community Services	24,250	70,469	-
0062 School District Administrative Support (ESC Only)	2,214,711	-	-
Debt Service:			
0071 Principal on Long Term Debt	63,673	-	-
0072 Interest on Long Term Debt	3,745	-	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	-	3,184,424	-
6030 Total Expenditures	16,469,048	7,618,763	513,224
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	313,724	-	(513,224)
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	(1,100,000)	-	-
7080 Total Other Financing Sources (Uses)	(1,100,000)	-	-
1200 Net Change in Fund Balances	(786,276)	-	(513,224)
0100 Fund Balance - September 1 (Beginning)	5,300,132	-	2,647,349
3000 Fund Balance - August 31 (Ending)	\$ 4,513,856	\$ -	\$ 2,134,125

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

60 Capital Projects	Other Nonmajor Funds	Total Governmental Funds
\$ -	\$ 1,109,777	\$ 13,632,798
-	2,314,910	3,719,324
-	9,121,283	19,595,383
-	12,545,970	36,947,505
-	2,845,434	6,551,885
-	-	1,182,373
-	4,893,344	12,146,585
-	827,288	1,477,806
-	527,403	532,645
-	7,881	7,881
-	1,997	1,872,689
26,767	1,314,494	2,246,046
398,145	433,501	4,298,107
-	80,989	175,708
-	944,437	3,159,148
-	-	63,673
-	-	3,745
533,391	-	533,391
-	502,617	3,687,041
958,303	12,379,385	37,938,723
(958,303)	166,585	(991,218)
1,100,000	-	1,100,000
-	-	(1,100,000)
1,100,000	-	-
141,697	166,585	(991,218)
2,241,182	2,124,484	12,313,147
<u>\$ 2,382,879</u>	<u>\$ 2,291,069</u>	<u>\$ 11,321,929</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, 2013

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ (991,218)
The Center uses internal service funds to charge the costs of certain activities, such as printing, space management and technology to appropriate functions in other funds. The net income of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.	477,557
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 2013 capital outlays and debt principal payments is to increase net position.	1,487,897
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.	(911,992)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include eliminating interfund transactions and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to (decrease) net position.	(5,043)
<b>Change in Net Position of Governmental Activities</b>	\$ 57,201

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  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis - See Note III A)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 12,977,505	\$ 14,126,792	\$ 12,523,021	\$ (1,603,771)
5800	State Program Revenues	1,289,112	1,403,186	1,404,414	1,228
5900	Federal Program Revenues	2,807,497	2,807,497	2,855,337	47,840
5020	Total Revenues	17,074,114	18,337,475	16,782,772	(1,554,703)
EXPENDITURES:					
Current:					
0011	Instruction	2,075,210	2,306,420	2,250,423	55,997
0012	Instructional Resources and Media Services	1,241,933	1,191,381	1,182,373	9,008
0013	Curriculum and Instructional Staff Development	3,913,316	5,224,167	4,157,603	1,066,564
0021	Instructional Leadership	696,802	492,107	489,828	2,279
0023	School Leadership	5,500	8,500	5,242	3,258
0041	General Administration	1,858,208	1,963,318	1,870,692	92,626
0051	Facilities Maintenance and Operations	1,210,757	1,201,722	777,857	423,865
0053	Data Processing Services	3,701,781	3,629,311	3,428,651	200,660
0061	Community Services	17,250	24,250	24,250	-
0062	School District Admin Support (ESC Only)	2,353,357	2,476,195	2,214,711	261,484
Debt Service:					
0071	Principal on Long Term Debt	-	63,673	63,673	-
0072	Interest on Long Term Debt	-	3,745	3,745	-
6030	Total Expenditures	17,074,114	18,584,789	16,469,048	2,115,741
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(247,314)	313,724	561,038
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	(1,100,000)	(1,100,000)	-
7080	Total Other Financing Sources (Uses)	-	(1,100,000)	(1,100,000)	-
1200	Net Change in Fund Balances	-	(1,347,314)	(786,276)	561,038
0100	Fund Balance - September 1 (Beginning)	5,300,132	5,300,132	5,300,132	-
3000	Fund Balance - August 31 (Ending)	\$ 5,300,132	\$ 3,952,818	\$ 4,513,856	\$ 561,038

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, 2013

	Governmental Activities -
	Total Internal Service Funds
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 4,715,373
Allowance for Uncollectible Receivables	(1,110)
Other Receivables	64,667
Inventories	3,065
Other Current Assets	4,881
Total Current Assets	<u>4,786,876</u>
Noncurrent Assets:	
Capital Assets:	
Furniture and Equipment	428,192
Depreciation on Furniture and Equipment	(355,258)
Total Noncurrent Assets	<u>72,934</u>
Total Assets	<u>4,859,810</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	<u>121,021</u>
Total Liabilities	<u>121,021</u>
<b>NET POSITION</b>	
Unrestricted Net Position	<u>4,738,789</u>
Total Net Position	<u><u>\$ 4,738,789</u></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, 2013

	Governmental Activities -
	Total Internal Service Funds
<hr/>	
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 3,942,043
Total Operating Revenues	<u>3,942,043</u>
OPERATING EXPENSES:	
Payroll Costs	813,244
Professional and Contracted Services	1,833,470
Supplies and Materials	200,990
Other Operating Costs	92,137
Depreciation Expense	24,645
Debt Service	<u>500,000</u>
Total Operating Expenses	<u>3,464,486</u>
Operating Income	477,557
Total Net Position - September 1 (Beginning)	<u>4,261,232</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 4,738,789</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, 2013

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 4,111,569
Cash Payments to Employees for Services	(813,244)
Cash Payments for Contracted Services	(1,833,470)
Cash Payments for Suppliers	(265,631)
Cash Payments for Other Operating Expenses	(95,109)
Cash Payments for Debt Service	(500,000)
Net Cash Provided by Operating Activities	<u>604,115</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(29,689)</u>
Net Increase in Cash and Cash Equivalents	574,426
Cash and Cash Equivalents at Beginning of Year	<u>4,140,947</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 4,715,373</u></u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	\$ 477,557
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	24,645
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	169,524
Decrease (increase) in Inventories	2,000
Decrease (increase) in Other Current Assets	(2,970)
Increase (decrease) in Accounts Payable	(66,641)
Net Cash Provided by Operating Activities	<u><u>\$ 604,115</u></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, 2013

	Private Purpose Trust Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 69,201
Other Receivables	2,825
Total Assets	<u>72,026</u>
LIABILITIES	
Due to Student Groups	62,026
Total Liabilities	<u>62,026</u>
NET POSITION	
Unrestricted Net Position	10,000
Total Net Position	<u>\$ 10,000</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, 2013

	Private Purpose Trust Fund
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 61,340
Total Additions	<u>61,340</u>
DEDUCTIONS:	
Professional and Contracted Services	40,184
Other Operating Costs	11,156
Total Deductions	<u>51,340</u>
Change in Net Position	10,000
 Total Net Position - September 1 (Beginning)	 <u>-</u>
 Total Net Position - August 31 (Ending)	 <u><u>\$ 10,000</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, 2013

**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 deferred 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. **Chapter 41 Fund** - 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, or designated for, 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. When the Center incurs an expense for which it may use either restricted or unrestricted assets, the Center uses the restricted assets first unless unrestricted assets are to be returned if not used within a prescribed amount of time.
7. 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 expresses 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**

8. 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.
9. 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 fiscal year 2013, 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.
10. 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.

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	14,012,938	(4,125,561)	9,887,377	
Furniture & Equipment	3,651,653	(3,330,190)	321,463	
Capital Leases	5,177,406	(2,711,163)	2,466,243	
Library Books & Media	1,395,644	-	1,395,644	
Change in Net Position				\$ 14,181,200
Long-Term Liabilities at the Beginning of Year			Payable at the Beginning of Year	
Capital Leases			(1,900,580)	
Change in Net Position				(1,900,580)
Net Adjustment to Net Position				\$ 12,280,620

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

## **II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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:

<u>Current Year Capital Outlay</u>	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments in Net Position</u>
Buildings & Improvements	\$ 887,027	\$ 887,027	
Furniture & Equipment	<u>121,910</u>	<u>121,910</u>	
Total Capital Outlay			<u>\$ 1,008,937</u>
<u>Debt Principal Payments</u>			
Capital Lease Payments	<u>478,960</u>	<u>478,960</u>	
Total Principal Payments	<u>478,960</u>	<u>478,960</u>	<u>478,960</u>
Net Adjustment to Net Position			<u>\$ 1,487,897</u>

## **III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. BUDGETARY DATA**

The Board of Directors adopts an “appropriated budget” for the General Fund. The Center is required to present the adopted and final amended budgeted revenues and expenditures. The Center compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

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. These were no significant budget amendments passed during the 2012-2013 school year.
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, 2013, the carrying amount of the Center's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$386,365 and the bank balance was \$2,193,425. The Center's cash deposits at August 31, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the Center's agent bank in the Center's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Lone Star National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$23,426,103.
- c. The highest combined balances of cash, saving and time deposit accounts amounted to \$20,872,167 and occurred during the month of January 2013.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.

##### 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.

##### Center Policies and Legal Contractual Provisions Governing Investment

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.

#### IV. DETAILED NOTES ON ALL FUNDS

##### A. DEPOSITS AND INVESTMENTS

The Center's temporary investments at August 31, 2013, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More Than 10</u>
TexPool	\$ 1,536,751	\$ 1,536,751	\$ -	\$ -	\$ -
Texas Class Investment	2,179,863	2,179,863	-	-	-
Lone Star Investment Pool	17,049,655	17,049,655	-	-	-
Total	<u>\$ 20,766,269</u>	<u>\$ 20,766,269</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, 2013, the Center's investments in TexPool was rated AAAM by Standard and Poor's (S&P), Lone Star Investment Pool were rated AAAF-s/t by Standard and Poor's (S&P), and MBIA was rated AAA/v1+ by Fitch Ratings.

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

**Concentration of Credit Risk** – The investment portfolio is diversified in terms of investment instruments and maturity scheduling to reduce risk of loss resulting from over concentration of assets in specific class of investments, specific maturity or specific issuer. As of August 31, 2013, the Center had 82% of its investments in an investment account in its depository bank, Lone Star National Bank. These certificate of deposit were fully covered by eligible pledged securities. The Center had 8% of its investments in TASB investment pools rated AAA 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, 2013, 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	\$ 15,422	\$ -	\$ 210,198	\$ 225,620
Special Revenue	<u>311,948</u>	<u>2,487,525</u>	<u>98,165</u>	<u>2,897,638</u>
Total	<u>\$ 327,370</u>	<u>\$ 2,487,525</u>	<u>\$ 308,363</u>	<u>\$ 3,123,258</u>

#### IV. DETAILED NOTES ON ALL FUNDS

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

Interfund balances at August 31, 2013 consisted of the following individual fund balances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	General Fund	\$ 41,186
General Fund	Special Revenue Funds	125
Special Revenue Funds	Special Revenue Funds	<u>56</u>
	Total	<u>\$ 41,367</u>

The entire balance of \$41,367 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	<u>\$ 1,100,000</u>	Construction
	Total	<u>\$ 1,100,000</u>	

##### D. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

As of August 31, 2013, the Center established an allowance for uncollectible accounts in the General Fund for outstanding accounts receivable balances. Management is of the opinion that an allowance in the amount of \$74,746 is adequate to account for accounts receivable that may not be collected. The Center's accounts receivable balance within the general fund consists of \$455,927 with an allowance of \$74,746.

##### E. CAPITAL ASSET ACTIVITY

Capital asset activity for the Center for the year ended August 31, 2013, was as follows:

	<u>Balance</u>	<u>Changes During Year</u>		<u>Balance</u>
Governmental Activities:	<u>9/1/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>8/31/2013</u>
Land	\$ 110,473	\$ -	\$ -	\$ 110,473
Buildings & Improvements	14,012,938	887,027	-	14,899,965
Furniture & Equipment	3,651,653	121,910	(304,455)	3,469,108
Capital Leases	5,177,406	-	-	5,177,406
Library Books & Media	<u>1,395,644</u>	<u>-</u>	<u>-</u>	<u>1,395,644</u>
Totals at Historic Cost	<u>24,348,114</u>	<u>1,008,937</u>	<u>(304,455)</u>	<u>25,052,596</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(4,125,561)	(554,719)	-	(4,680,280)
Furniture & Equipment	(3,330,190)	(162,525)	304,455	(3,188,260)
Capital Leases	<u>(2,711,163)</u>	<u>(194,748)</u>	<u>-</u>	<u>(2,905,911)</u>
Total Accumulated Depreciation	<u>(10,166,914)</u>	<u>(911,992)</u>	<u>304,455</u>	<u>(10,774,451)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 14,181,200</u>	<u>\$ 96,945</u>	<u>\$ -</u>	<u>\$ 14,278,145</u>

#### IV. DETAILED NOTES ON ALL FUNDS

##### E. CAPITAL ASSET ACTIVITY

Depreciation expense was charged to governmental functions as follows:

11 Instruction	\$ 2,956
12 Instructional Resources & Media Services	43,360
13 Curriculum & Instructional Staff Development	112,808
21 Instructional Leadership	15,158
34 Student (Pupil) Transportation	505
36 Cocurricular/Extracurricular Activities	-
41 General Administration	40,535
51 Plant Maintenance & Operations	313,949
52 Security and Monitoring Services	37,155
53 Data Processing Services	188,064
61 Community Services	44,974
62 School District Administrative Support (ESC only)	87,883
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>24,645</u>
Totals	<u>\$ 911,992</u>

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

Long-term liabilities for the Center for the year ended August 31, 2013, was as follows:

<u>Purpose</u>	<u>Amount of Original Issue</u>	<u>Interest Rate</u>	<u>Balance 9/1/2012</u>	<u>Principal Issued</u>	<u>Principal Retired</u>	<u>Balance 8/31/2013</u>	<u>Interest Retired 8/31/2013</u>
<u>Capital Lease</u>							
Construction Improvement & Tech Center	\$ 4,975,000	5.00%	\$ 1,773,234	\$ -	\$ (415,287)	\$ 1,357,947	\$ 84,713
Data Center	191,019	5.88%	<u>127,346</u>	<u>-</u>	<u>(63,673)</u>	<u>63,673</u>	<u>3,745</u>
Total Long-Term Liabilities			<u>\$ 1,900,580</u>	<u>\$ -</u>	<u>\$ (478,960)</u>	<u>\$ 1,421,620</u>	<u>\$ 88,458</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, 2013, 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.

#### **IV. DETAILED NOTES ON ALL FUNDS**

##### **G. COMMITMENTS UNDER LEASES**

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 December 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, 2013, are as follows:

Year Ending <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 500,280	\$ 67,139	\$ 567,419
2015	459,021	40,979	500,000
2016	<u>462,319</u>	<u>17,446</u>	<u>479,765</u>
Totals	<u>\$ 1,421,620</u>	<u>\$ 125,564</u>	<u>\$ 1,547,184</u>

##### **Operating (Noncapitalized) Leases**

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2013, are as follows:

Year Ending <u>August 31,</u>	
2014	\$103,356
2015	<u>30,480</u>
Total Minimum Rentals	<u>\$393,639</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, 2013, employees of the Center were covered by a health insurance plan (the "Plan"). The Center paid premiums of \$503.58 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.

#### **IV. DETAILED NOTES ON ALL FUNDS**

##### **K. PROPERTY INSURANCE AND PERSONNEL BONDS**

The Center carries insurance on the building and contents in the amount of \$17,651,628. Valuable papers and records to "Direct Physical loss, replacement cost Business Personal Property" in the amount of \$10,227,518. 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 contributes to the Teacher Retirement System of Texas ("TRS"), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of The Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**Funding Policy.** Contribution requirements are not actuarially determined but are established and amended by the Texas state 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 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. State law provides for a member contribution rate of 6.4% for fiscal year 2013-2011, and a state contribution rate of 6.40% for fiscal year 2013, 6.00% for fiscal year 2012 and 6.644% for fiscal year 2011.

State contributions to TRS made on behalf of the Center's employees for the years ended August 31, 2013, 2012 and 2011 were \$850,365, \$820,705 and \$846,693, 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, 2013, 2012 and 2011 were \$38,160, \$36,382 and \$33,296, respectively.

##### **M. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS**

At August 31, 2013, the Center had no liability for accrued sick leave or vacation leave.

##### **N. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS**

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

#### **IV. DETAILED NOTES ON ALL FUNDS**

##### **O. 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 2012-2013		\$ 1,918,760
b. Subtract any non-medical expenditures:		
Life insurance	\$ 22,773	<u>22,773</u>
c. 2012-2013 Maintenance of Effort		<u>\$ 1,895,987</u>

##### **P. SHARED SERVICE AGREEMENTS**

The Center is the fiscal agent for a Shared Service Arrangement (“SSA”), which provides assistance to support comprehensive drug use prevention and 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:

<u>Member Districts</u>	<u>Title II Part A</u>	<u>Title III Part A LEP</u>
Excellence In Leadership Academy	\$ -	\$ 1,106
Gateway Academy	8,882	844
Jim Hogg ISD	24,880	-
La Villa ISD	21,490	-
Lasara ISD	-	1,921
Mid-Valley Academy	3,882	495
San Isidro ISD	-	1,427
San Perlita ISD	-	1,077
Santa Rosa ISD	27,209	-
South Texas ISD	-	1,223
Webb CONS ISD	7,404	815
	<u>\$ 93,747</u>	<u>\$ 8,908</u>

## **COMBINING STATEMENTS**



REGION ONE EDUCATION SERVICE CENTER  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2013

Data Control Codes		203 Child Care Development Block Grant	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	220 Adult Education Federal
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240	Receivables from Other Governments	23,535	3,716	128,283	202,324
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	-	-	-	-
1000	Total Assets	<u>\$ 23,535</u>	<u>\$ 3,716</u>	<u>\$ 128,283</u>	<u>\$ 202,324</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 23,535	\$ 3,716	\$ 128,283	\$ 202,324
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>23,535</u>	<u>3,716</u>	<u>128,283</u>	<u>202,324</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 23,535</u>	<u>\$ 3,716</u>	<u>\$ 128,283</u>	<u>\$ 202,324</u>

223 TANF Family Assistance	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary	241 ESC Child Nutrition	244 Career and Technical - Basic Grant	263 Title III, A English Lang Acquisition	273 Mathematics & Science Partnerships	288 Federally Funded SRFs
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
60,359	15,131	206,921	104,230	6,032	35,614	160,962	279,059
-	-	41	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 60,359</u>	<u>\$ 15,131</u>	<u>\$ 206,962</u>	<u>\$ 104,230</u>	<u>\$ 6,032</u>	<u>\$ 35,614</u>	<u>\$ 160,962</u>	<u>\$ 279,059</u>
\$ 60,359	\$ 15,131	\$ 206,962	\$ 104,230	\$ 6,032	\$ 35,614	\$ 160,962	\$ 279,059
-	-	-	-	-	-	-	-
<u>60,359</u>	<u>15,131</u>	<u>206,962</u>	<u>104,230</u>	<u>6,032</u>	<u>35,614</u>	<u>160,962</u>	<u>279,059</u>
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 60,359</u>	<u>\$ 15,131</u>	<u>\$ 206,962</u>	<u>\$ 104,230</u>	<u>\$ 6,032</u>	<u>\$ 35,614</u>	<u>\$ 160,962</u>	<u>\$ 279,059</u>

REGION ONE EDUCATION SERVICE CENTER  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2013

Data Control Codes		289 Other Federal Special Revenue Funds	342 SSA - ESEA Title II, A Training	350 SSA - III, A English Lang. Acquisition	381 Adult Basic Education State
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240	Receivables from Other Governments	109,903	154,351	18,606	142,711
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	212	-	-	-
1000	Total Assets	<u>\$ 110,115</u>	<u>\$ 154,351</u>	<u>\$ 18,606</u>	<u>\$ 142,711</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 110,115	\$ 154,351	\$ 18,606	\$ 142,711
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>110,115</u>	<u>154,351</u>	<u>18,606</u>	<u>142,711</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 110,115</u>	<u>\$ 154,351</u>	<u>\$ 18,606</u>	<u>\$ 142,711</u>

382 TANF TEC 29.252 Needy Family	385 Visually Impaired SSVI	392 Non-Ed. Community Based Support	400 ESC School Health	404 Student Success Initiative	405 ESC Gifted and Talented	423 LEP Success Initiative	425 Teacher Induction and Mentoring
\$ -	\$ -	\$ 51,844	\$ -	\$ -	\$ -	\$ -	\$ -
64,854	25,902	-	6,666	-	1,584	-	12,030
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 64,854</u>	<u>\$ 25,902</u>	<u>\$ 51,844</u>	<u>\$ 6,666</u>	<u>\$ -</u>	<u>\$ 1,584</u>	<u>\$ -</u>	<u>\$ 12,030</u>
\$ 64,854	\$ 25,902	\$ -	\$ 6,666	\$ -	\$ 1,584	\$ -	\$ 12,030
-	-	51,844	-	-	-	-	-
<u>64,854</u>	<u>25,902</u>	<u>51,844</u>	<u>6,666</u>	<u>-</u>	<u>1,584</u>	<u>-</u>	<u>12,030</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 64,854</u>	<u>\$ 25,902</u>	<u>\$ 51,844</u>	<u>\$ 6,666</u>	<u>\$ -</u>	<u>\$ 1,584</u>	<u>\$ -</u>	<u>\$ 12,030</u>

REGION ONE EDUCATION SERVICE CENTER  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2013

Data Control Codes		429	437	480	482
		Other State Special Revenue Funds	SSA Special Education	Gates Foundation	RTI International
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ 11,610	\$ 69,046	\$ 23,328
1240	Receivables from Other Governments	1,901	-	-	-
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	-	-	-	-
1000	Total Assets	<u>\$ 1,901</u>	<u>\$ 11,610</u>	<u>\$ 69,046</u>	<u>\$ 23,328</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 1,901	\$ -	\$ -	\$ -
2300	Deferred Revenues	-	11,610	66,454	23,328
2000	Total Liabilities	<u>1,901</u>	<u>11,610</u>	<u>66,454</u>	<u>23,328</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	2,592	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>2,592</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,901</u>	<u>\$ 11,610</u>	<u>\$ 69,046</u>	<u>\$ 23,328</u>

483	486	487	489	491	Total
T-STEM	Texas		Doing What	STAAR	Nonmajor
Training	Instruments	ECI -State	Works	One	Governmental
	Ed Tech			Assessment	Funds
\$ 759,608	\$ 14,647	\$ -	\$ 4,860	\$ 1,407,999	\$ 2,342,942
-	-	56,299	-	-	1,820,973
-	-	-	-	-	41
6,900	-	-	-	115,122	122,234
<u>\$ 766,508</u>	<u>\$ 14,647</u>	<u>\$ 56,299</u>	<u>\$ 4,860</u>	<u>\$ 1,523,121</u>	<u>\$ 4,286,190</u>
\$ 312	\$ -	\$ 56,299	\$ -	\$ 840	\$ 1,822,378
-	14,647	-	4,860	-	172,743
<u>312</u>	<u>14,647</u>	<u>56,299</u>	<u>4,860</u>	<u>840</u>	<u>1,995,121</u>
766,196	-	-	-	1,522,281	2,291,069
<u>766,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,522,281</u>	<u>2,291,069</u>
<u>\$ 766,508</u>	<u>\$ 14,647</u>	<u>\$ 56,299</u>	<u>\$ 4,860</u>	<u>\$ 1,523,121</u>	<u>\$ 4,286,190</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, 2013

Data Control Codes		203 Child Care Development Block Grant	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	220 Adult Education Federal
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	47,876	22,663	1,133,668	1,719,997
5020	Total Revenues	47,876	22,663	1,133,668	1,719,997
EXPENDITURES:					
Current:					
0011	Instruction	-	-	212,926	930,769
0013	Curriculum and Instructional Staff Development	44,293	9,083	291,477	-
0021	Instructional Leadership	-	12,178	144,675	80,220
0023	School Leadership	-	-	-	419,425
0031	Guidance, Counseling and Evaluation Services	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	2,183	1,202	63,565	215,583
0053	Data Processing Services	1,400	200	59,583	74,000
0061	Community Services	-	-	24,348	-
0062	School District Admin Support (ESC Only)	-	-	337,094	-
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030	Total Expenditures	47,876	22,663	1,133,668	1,719,997
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

223 TANF Family Assistance	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary	241 ESC Child Nutrition	244 Career and Technical - Basic Grant	263 Title III, A English Lang Acquisition	273 Mathematics & Science Partnerships	288 Federally Funded SRFs
\$ -	\$ -	\$ -	\$ 555	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
284,901	217,247	2,339,211	359,851	55,632	137,522	386,225	1,709,382
284,901	217,247	2,339,211	360,406	55,632	137,522	386,225	1,709,382
180,064	-	21,140	-	-	-	-	671,387
-	192,431	1,793,865	-	48,130	33,564	292,445	408,564
49,765	-	59,240	-	-	89,325	-	155,849
5,838	-	-	-	-	-	-	-
-	-	7,881	-	-	-	-	-
-	-	-	-	-	-	-	-
45,963	6,831	143,514	36,130	6,032	9,433	83,644	166,767
3,271	3,000	83,731	9,500	1,470	5,200	10,136	52,418
-	-	53,301	-	-	-	-	-
-	-	156,733	314,776	-	-	-	-
-	14,985	19,806	-	-	-	-	254,397
284,901	217,247	2,339,211	360,406	55,632	137,522	386,225	1,709,382
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



REGION ONE EDUCATION SERVICE CENTER  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		289 Other Federal Special Revenue Funds	342 SSA - ESEA Title II, A Training	350 SSA - III, A English Lang. Acquisition	381 Adult Basic Education State
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	377,766
5900	Federal Program Revenues	393,524	271,764	41,820	-
5020	Total Revenues	393,524	271,764	41,820	377,766
EXPENDITURES:					
Current:					
0011	Instruction	-	-	-	174,125
0013	Curriculum and Instructional Staff Development	256,252	90,410	8,908	-
0021	Instructional Leadership	6,801	-	-	14,720
0023	School Leadership	-	-	-	94,664
0031	Guidance, Counseling and Evaluation Services	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	14,695	3,237	-	80,300
0053	Data Processing Services	9,794	100	-	13,957
0061	Community Services	-	-	-	-
0062	School District Admin Support (ESC Only)	105,982	-	-	-
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	-	178,017	32,912	-
6030	Total Expenditures	393,524	271,764	41,820	377,766
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

382 TANF TEC 29.252 Needy Family	385 Visually Impaired SSVI	392 Non-Ed. Community Based Support	400 ESC School Health	404 Student Success Initiative	405 ESC Gifted and Talented	423 LEP Success Initiative	425 Teacher Induction and Mentoring
\$ -	\$ -	\$ -	\$ -	\$ 51,790	\$ -	\$ -	\$ -
346,162	368,566	2,500	38,300	636,589	10,533	189,414	29,852
-	-	-	-	-	-	-	-
346,162	368,566	2,500	38,300	688,379	10,533	189,414	29,852
268,454	274,651	-	-	-	-	-	-
-	76,407	-	38,300	294,929	10,533	171,927	-
200	-	-	-	19,235	-	-	-
7,476	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
66,760	9,708	-	-	324,415	-	13,187	-
3,272	7,800	-	-	49,800	-	4,300	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	29,852
-	-	2,500	-	-	-	-	-
346,162	368,566	2,500	38,300	688,379	10,533	189,414	29,852
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

REGION ONE EDUCATION SERVICE CENTER  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		429 Other State Special Revenue Funds	437 SSA Special Education	480 Gates Foundation	482 RTI International
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 7,955	\$ -	\$ 94,450	\$ 90,412
5800	State Program Revenues	3,340	117,438	-	-
5900	Federal Program Revenues	-	-	-	-
5020	Total Revenues	<u>11,295</u>	<u>117,438</u>	<u>94,450</u>	<u>90,412</u>
EXPENDITURES:					
Current:					
0011	Instruction	-	107,592	-	-
0013	Curriculum and Instructional Staff Development	7,734	-	89,990	64,712
0021	Instructional Leadership	-	-	1,868	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling and Evaluation Services	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	221	5,346	-	-
0053	Data Processing Services	-	4,500	-	25,700
0061	Community Services	3,340	-	-	-
0062	School District Admin Support (ESC Only)	-	-	-	-
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030	Total Expenditures	<u>11,295</u>	<u>117,438</u>	<u>91,858</u>	<u>90,412</u>
1200	Net Change in Fund Balance	-	-	2,592	-
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>\$ 2,592</u>	<u>\$ -</u>

483	486	487	489	491	Total
T-STEM	Texas		Doing What	STAAR	Nonmajor
Training	Instruments	ECI -State	Works	One	Governmental
	Ed Tech			Assessment	Funds
\$ 133,519	\$ -	\$ -	\$ -	\$ 731,096	\$ 1,109,777
-	-	194,450	-	-	2,314,910
-	-	-	-	-	9,121,283
133,519	-	194,450	-	731,096	12,545,970
4,326	-	-	-	-	2,845,434
125,993	-	-	-	543,397	4,893,344
-	-	192,081	-	1,131	827,288
-	-	-	-	-	527,403
-	-	-	-	-	7,881
-	-	-	-	1,997	1,997
-	-	-	-	15,778	1,314,494
3,200	-	2,369	-	4,800	433,501
-	-	-	-	-	80,989
-	-	-	-	-	944,437
-	-	-	-	-	502,617
133,519	-	194,450	-	567,103	12,379,385
-	-	-	-	163,993	166,585
766,196	-	-	-	1,358,288	2,124,484
\$ 766,196	\$ -	\$ -	\$ -	\$ 1,522,281	\$ 2,291,069

REGION ONE EDUCATION SERVICE CENTER  
COMBINING STATEMENT OF NET POSITION  
INTERNAL SERVICE FUNDS  
AUGUST 31, 2013

	752	754	798	799	Total
	Print	Computer	Internal	Internal	Total
	Shop	Operations	Srvc - Deputy	Service	Internal
			Director	Funds	Service Funds
<b>ASSETS</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 771,991	\$ 279,188	\$ -	\$ 3,664,194	\$ 4,715,373
Allowance for Uncollectible Receivables	-	-	-	(1,110)	(1,110)
Other Receivables	3,102	46,375	-	15,190	64,667
Inventories	3,065	-	-	-	3,065
Other Current Assets	-	-	-	4,881	4,881
Total Current Assets	<u>778,158</u>	<u>325,563</u>	<u>-</u>	<u>3,683,155</u>	<u>4,786,876</u>
Noncurrent Assets:					
Capital Assets:					
Furniture and Equipment	96,881	32,689	-	298,622	428,192
Depreciation on Furniture and Equipment	(95,291)	(5,441)	-	(254,526)	(355,258)
Total Noncurrent Assets	<u>1,590</u>	<u>27,248</u>	<u>-</u>	<u>44,096</u>	<u>72,934</u>
Total Assets	<u>779,748</u>	<u>352,811</u>	<u>-</u>	<u>3,727,251</u>	<u>4,859,810</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts Payable	-	8,997	6,412	105,612	121,021
Total Liabilities	<u>-</u>	<u>8,997</u>	<u>6,412</u>	<u>105,612</u>	<u>121,021</u>
<b>NET POSITION</b>					
Unrestricted Net Position	\$ 779,748	\$ 343,814	\$ (6,412)	\$ 3,621,639	\$ 4,738,789
Total Net Position	<u>\$ 779,748</u>	<u>\$ 343,814</u>	<u>\$ (6,412)</u>	<u>\$ 3,621,639</u>	<u>\$ 4,738,789</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, 2013

	752	754	798	799	Total
	Print Shop	Computer Operations	Internal Srvc - Deputy Director	Internal Service Funds	Internal Service Funds
OPERATING REVENUES:					
Local and Intermediate Sources	\$ 378,425	\$ 700,525	\$ 13,697	\$ 2,849,396	\$ 3,942,043
Total Operating Revenues	<u>378,425</u>	<u>700,525</u>	<u>13,697</u>	<u>2,849,396</u>	<u>3,942,043</u>
OPERATING EXPENSES:					
Payroll Costs	120,608	396,326	-	296,310	813,244
Professional and Contracted Services	263,248	165,122	390	1,404,710	1,833,470
Supplies and Materials	79,556	22,245	1,849	97,340	200,990
Other Operating Costs	-	12,740	5,206	74,191	92,137
Depreciation Expense	530	4,841	-	19,274	24,645
Debt Service	-	-	-	500,000	500,000
Total Operating Expenses	<u>463,942</u>	<u>601,274</u>	<u>7,445</u>	<u>2,391,825</u>	<u>3,464,486</u>
Operating Income (Loss)	(85,517)	99,251	6,252	457,571	477,557
Total Net Position - September 1 (Beginning)	<u>865,265</u>	<u>244,563</u>	<u>(12,664)</u>	<u>3,164,068</u>	<u>4,261,232</u>
Total Net Position - August 31 (Ending)	<u>\$ 779,748</u>	<u>\$ 343,814</u>	<u>\$ (6,412)</u>	<u>\$ 3,621,639</u>	<u>\$ 4,738,789</u>

REGION ONE EDUCATION SERVICE CENTER  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013

	752	754	798	799	Total
	Print	Computer	Internal	Internal	Total
	Shop	Operations	Srvc - Deputy	Service	Internal
			Director	Funds	Service Funds
<u>Cash Flows from Operating Activities:</u>					
Cash Received from User Charges	\$ 485,269	\$ 704,206	\$ 28,697	\$ 2,893,397	\$ 4,111,569
Cash Payments to Employees for Services	(120,608)	(396,327)	-	(296,309)	(813,244)
Cash Payments for Contracted Services	(263,248)	(165,122)	(390)	(1,404,710)	(1,833,470)
Cash Payments for Suppliers	(82,747)	(21,026)	(23,101)	(138,757)	(265,631)
Cash Payments for Other Operating Expenses	-	(12,740)	(5,206)	(77,163)	(95,109)
Cash Payments for Debt Service	-	-	-	(500,000)	(500,000)
Net Cash Provided by Operating Activities	18,666	108,991	-	476,458	604,115
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>					
Acquisition of Capital Assets	-	(29,689)	-	-	(29,689)
Net Increase in Cash and Cash Equivalents	18,666	79,302	-	476,458	574,426
Cash and Cash Equivalents at Beginning of Year	753,325	199,886	-	3,187,736	4,140,947
Cash and Cash Equivalents at End of Year	\$ 771,991	\$ 279,188	\$ -	\$ 3,664,194	\$ 4,715,373
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>					
<u>Provided by Operating Activities:</u>					
Operating Income (Loss):	\$ (85,517)	\$ 99,251	\$ 6,252	\$ 457,571	\$ 477,557
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	530	4,841	-	19,274	24,645
Effect of Increases and Decreases in Current Assets and Liabilities:					
Decrease (increase) in Receivables	106,844	3,680	15,000	44,000	169,524
Decrease (increase) in Inventories	2,000	-	-	-	2,000
Decrease (increase) in Other Current Assets	-	-	-	(2,970)	(2,970)
Increase (decrease) in Accounts Payable	(5,191)	1,219	(21,252)	(41,417)	(66,641)
Net Cash Provided by Operating Activities	\$ 18,666	\$ 108,991	\$ -	\$ 476,458	\$ 604,115

## **FEDERAL AWARDS SECTION**



**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 (the "Center") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the 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 Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Patricia Brown Hill, CPA".

Brownsville, Texas  
December 12, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
Region One Education Service Center  
Brownsville, Texas

**Report on Compliance for Each Major Federal Program**

We have audited Region One Education Service Center's (the "Center") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended August 31, 2013. The 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 the Center's major federal programs based on our audit of types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the 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, 2013.

## Report on Internal Control Over Compliance

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

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

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

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



Brownsville, Texas  
December 12, 2013

REGION ONE EDUCATION SERVICE CENTER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2013

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

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

<b><i>Federal Awards</i></b>			
	Internal control over major programs:		
	• Material weakness(es) identified?	____ Yes	<u>  X  </u> No
	• Significant deficiency(ies) identified not considered to be material weaknesses?	____ Yes	<u>  X  </u> 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 Circular A-133, Section. 510(a)?	____ Yes	<u>  X  </u> No

<b><i>Identification of Major Programs</i></b>			
	<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>	
	84.002A 84.215L 84.334A	Adult Basic Education Smaller Learning Communities GEAR Up	
	Dollar threshold used to distinguish between Type A and Type B programs:	\$526,664	
	Auditee qualified as low-risk auditee?	____ Yes	<u>  X  </u> No

**SECTION II – Financial Statement Findings**

There were no financial statement findings required to be reported in accordance with *Government Auditing Standards*.

**SECTION III – Federal Award Findings and Questioned Costs**

There were no federal award findings and questioned costs required to be reported by OMB Circular A-133, Section .510(a).

REGION ONE EDUCATION SERVICE CENTER  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2013

**Program**

Not applicable

REGION I EDUCATION SERVICE CENTER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2013

(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 State Department of Education:</i>			
ESC Child Nutrition Program	10.560	108-950	\$ 44,864
ESC Child Nutrition Program	10.560	108-950	330,975
Total CFDA 10.560			375,839
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			375,839
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Direct Programs:</i>			
Title IV, GEAR UP Program	84.334A	P334A110180	7,815,470
Total CFDA 84.334A			7,815,470
Smaller Learning Communities - High School Redesign Project	84.215L	S215L060195	60,866
Smaller Learning Communities - High School Redesign Project	84.215L	S215L100031	19,005
Smaller Learning Communities - High School Redesign Project	84.215L	S215L100031	728,414
Total CFDA 84.215L			808,285
Total Direct Programs			8,623,755
<i>Passed Through State Department of Education:</i>			
ESEA Title 1, Part A	84.010A	1261010271201	8,361
ESEA Title 1, Part A	84.010A	136101027120009	15,354
Total CFDA 84.010A			23,716
ESEA Title 1, Part C, - Migratory Children	84.011A	1261500271201	659,420
ESEA Title 1, Part C, - Migrant Special Project	84.011A	1261501371201	4,439
ESEA Title 1, Part C, - Migratory Children	84.011A	1361500271201	490,996
ESEA Title 1, Part C, - Migrant Special Project	84.011A	1361501371201	29,131
Total CFDA 84.011			1,183,987
ESEA Title III, Part A - ELA	84.365A	1267100271201	111,726
ESEA Title III, Part A - ELA	84.365A	1367100271201	28,546
ESEA Title III, Part A - LEP	84.365A	13671001108950	41,820
Total CFDA 84.365A			182,093
Adult Basic Education - Federal	84.002A	134100017110469	1,695,220
Adult Education - Civics Laredo	84.002A	134100087110501	101,116
Total CFDA 84.002A			1,796,336

REGION I EDUCATION SERVICE CENTER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2013

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures & Indirect Cost
IDEA - Part B Pre-School *	84.173	1266102271201	22,895
IDEA - Part B Pre-School *	84.173	136610227110003	203,989
Total CFDA 84.173			226,884
IDEA - Part B Discretionary *	84.027	1266002271201	237,491
IDEA - Part B Discretionary *	84.027	1366002271101	2,205,487
Total CFDA 84.027			2,442,978
Vocational Education-Basic	84.048	1342001071201	30,154
Vocational Education-Basic	84.048	1442001071101	4,524
Career Technology Education	84.048	1342000971201	8,432
Career Technology Education - PBM/Admin.	84.048	1342001171201	8,579
Career Technology Education - PBM/Admin.	84.048	1442001171101	1,508
Career Technology Education - Nontraditional	84.048	1342001271201	5,250
Total CFDA 84.048			58,447
TTL II, Part B - T-STEM Centers	84.366B	126944107110001	403,358
Total CFDA 84.366B			403,358
ESEA, Title II, TPTR	84.367A	12694501108950	45,128
ESEA, Title II, TPTR	84.367A	13694501108950	230,796
Total CFDA 84.367A			275,923
NCLB Support	84.999	1260001171201	16,618
NCLB Support	84.999	136000117120019	113,681
Total CFDA 84.999			130,299
TLI ESC Collaborative	84.371C	126460547110001	9,619
TLI ESC Collaborative	84.371C	136460547110001	1,225
Total CFDA 84.371C			10,844
School Readiness Integration Specialist	93.575	133913017110001	50,000
Total CFDA 93.575			50,000
Total Passed Through State Dept. of Education			6,784,864
<i>Passed Through University of Texas at Austin:</i>			
Texas Reg. College for Science	84.366B	126944047110001	95,330
Texas Reg. College for Science	84.366B	136944047110001	49,100
Texas Reg. Math Collaborative	84.366B	126944047110001	77,073
Texas Reg. Math Collaborative	84.366B	136944047110001	49,066
Total CFDA 84.366B			270,569



REGION I EDUCATION SERVICE CENTER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2013

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Total Federal Expenditures & Indirect Cost
<i>Passed Through Department of Assistive &amp; Rehabilitative Services (DARS) Division for Early Childhood Intervention Services:</i>			
Special Education-Grants to States	84.027	53802C7043	106,038
Total CFDA 84.027			106,038
Special Education-Grants for Infants & Families with Disabilities	84.181	53802C7043	370,042
Total CFDA 84.181			370,042
Special Education-Temporary Assistance for Needy Families	93.558	53802C7043	361,949
Total CFDA 93.558			361,949
Special Education-Medical Assistance Program	93.778	53802C7043	124,245
Total CFDA 93.778			124,245
Total Passed Through Dept. of Assistive & Rehab. Services (DARS)			962,275
Medicaid Administrative Claiming Program	93.778	529-11-0040-00016	200,617
Total CFDA 93.778			200,617
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			1,433,461
<b>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>			
<i>Direct Program:</i>			
Texas Department of State Health Services	93.994	2013-042104-001	39,999
Total CFDA 93.994			39,999
<i>Passed Through Texas Department of Education:</i>			
Temporary Assistance for Needy Families (TANF)	93.558	133625017110443	297,539
Total CFDA 93.558			297,539
<b>TOTAL U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>			337,538
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 17,555,457</b>

\* Clustered Programs as required by OMB A-133 Compliance Supplement March, 2006

REGION ONE EDUCATION SERVICE CENTER  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2013

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

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

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.