

**REGION 16 EDUCATION SERVICE CENTER**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED AUGUST 31, 2014**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS

**REGION 16 EDUCATION SERVICE CENTER**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED AUGUST 31, 2014**

**REGION 16 EDUCATION SERVICE CENTER**

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FOR THE YEAR ENDED AUGUST 31, 2014**

Board of Directors:

David Schaeffer, Chairman

Don Bednorz, Vice Chairman

Kathleen Morris, Secretary

Lawrence Bussard

Ky Sherrod

Sherry McCavit

Mike Lee

Executive Director:

John Bass

**REGION 16 EDUCATION SERVICE CENTER**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

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CERTIFICATE OF BOARD

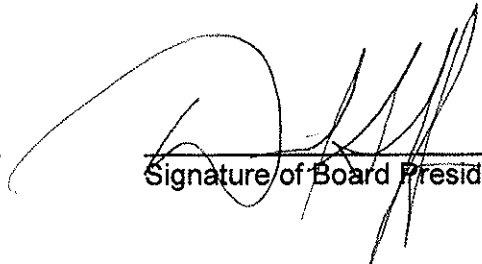
Region 16 Education Service Center  
Name of Service Center

Potter  
County

188-950  
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, 2014, at a meeting of the Board of Directors of such Service Center on the 9<sup>th</sup> day of January, 2015.

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

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

If the Board of Directors disapproved of the auditor's report, the reason(s) for disapproving it is (are):  
(Attach list as necessary)

**FINANCIAL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**Independent Auditor's Report**

**UNQUALIFIED OPINION ON THE BASIC FINANCIAL STATEMENTS**

Board of Directors  
Region 16 Education Service Center  
Amarillo, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Region 16 Education Service Center (the Center), as of and for the year ended August 31, 2014, and 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

### **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 16 Education Service Center, as of August 31, 2014, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity 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 and budgetary comparison information on pages 4-11 and 37, respectively, 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 assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Region 16 Education Service Center's basic financial statements. The accompanying combining balance sheet and statement of revenues, expenditures and changes in fund balance for all non-major governmental funds and combining statement of net position, changes in net position and cash flows for all proprietary funds 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.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this accompanying information is fairly stated in all material respects in relation to the 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 January 5, 2015, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion in the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

January 5, 2015

# REGION 16 EDUCATION SERVICE CENTER MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Region 16 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, 2014. Please read it in conjunction with the Center's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

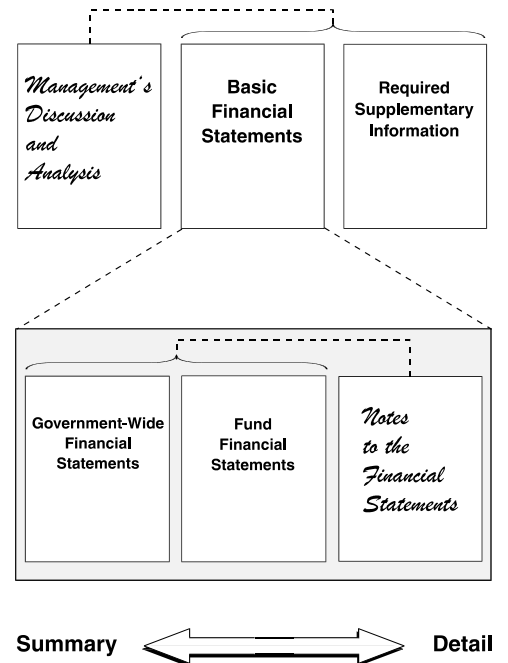
- The Center's total combined net position was \$16.37 million at August 31, 2014. This was an increase of about \$1.2 million, or approximately 8.2%.
- During the year, the Center generated \$35.52 million in grants, charges and other revenues for governmental activities. In comparison to the prior year, revenues increased 2.2%, or approximately \$762,000 and expenses decreased 0.8%, or approximately \$282,000.
- The general fund reported a fund balance this year of \$3.54 million. This was an increase of approximately \$46,000 (1.3%). The total governmental fund balance for the Center increased \$385,302 (6.4%).

## 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*.
- *Fiduciary fund* statements provide information about the financial relationships in which the Center acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

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



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

Figure A-2 summarizes the major features of the Center’s financial statements, including the portion of the Center government they cover and the types of information they contain. The remainder of this overview section of 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 Center’s government (except fiduciary funds) and the Center's component units	The activities of the center that are not proprietary or fiduciary	Activities the center operates similar to private businesses: wide area network	Instances in which the center is the trustee or agent for someone else's resources
Required financial statements	♦ Statement of net position	♦ Balance sheet	♦ Statement of net position	♦ Statement of fiduciary net position
	♦ Statement of activities	♦ Statement of revenues, expenditures & changes in fund balances	♦ Statement of revenues, expenses and changes in net position ♦ Statement of cash flows	♦ Statement of changes in fiduciary net position
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 position 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 position* and how it has changed. Net position—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 position are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the Center, you need to consider additional non-financial factors such as changes in the Center’s client base or legislation that affects the Center.
- The Statement of Activities reflects services such as instructional, administrative, data processing, technology, special education, head start, adult education and general administration. Charges for services and grants 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 Administration establishes other funds to control and manage money for particular purposes or to show that it is properly using certain fees and grants.

The Center has three 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*—Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
  - The Center uses *internal service funds* to report activities that provide supplies and services for the Center’s other programs and activities—such as the print shop.
- *Fiduciary funds*—The Center is the trustee, or *fiduciary*, for certain funds. 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 position and a statement of changes in fiduciary net position. 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 position:** The Center’s *combined* net position increased \$1.24 million between fiscal years 2013 and 2014 to approximately \$16.37 million (see Table A-1). In comparison, last year net position increased \$200,000.

You will note that total assets increased by 2.6%, or about \$429,000, while total liabilities decreased by 50.5%, or about \$814,000. The large decrease in liabilities was primarily due to a decrease in principal on the building note debt.

**Table A-1**  
**Region 16 Education Service Center**  
**NET POSITION**  
*(in thousands of dollars)*

	Governmental Activities 2014	Governmental Activities 2013	Total % Change
<u>Assets:</u>			
Current and Other Assets	\$ 7,296.0	\$ 7,295.9	0.0%
Capital Assets	9,868.3	9,439.1	4.5%
Total Assets	\$ 17,164.3	\$ 16,735.0	2.6%
<u>Liabilities:</u>			
Current Liabilities	\$ 467.7	\$ 815.4	-42.6%
Unearned Revenues	108.4	142.0	-23.7%
Long Term Liabilities	220.2	652.7	-66.3%
Total Liabilities	\$ 796.3	\$ 1,610.1	-50.5%
<u>Net Position:</u>			
Net Investment in Capital Assets	\$ 9,648.1	\$ 8,794.3	9.7%
Restricted	2,836.4	2,497.4	13.6%
Unrestricted	3,883.5	3,833.2	1.3%
Total Net Position	\$ 16,368.0	\$ 15,124.9	8.2%

**Changes in net position:** The Center's total revenues increased 2.2% to \$35.52 million (see Table A-2.) The majority of the Center's revenues, 70.2%, came from grants while 29.8% related to charges for services. (See Figure A-3.)

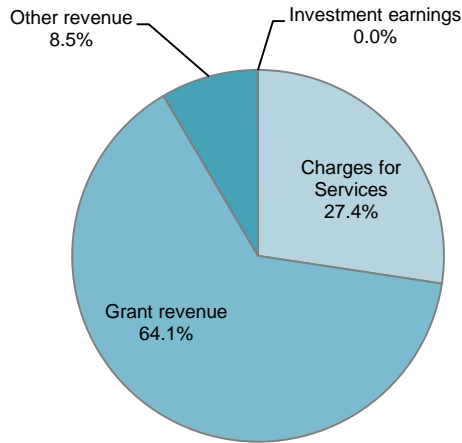
The total cost of all programs and services decreased 0.8% to \$34.27 million. The majority of these costs, 46.3%, were for services related to instruction; curriculum and staff development; and, school district administrative support. Another 20.6% of these costs were for payments to member districts of shared service arrangements.

- The Center's revenues generated by charging for services increased 13.6%, or approximately \$1.26 million from the prior year. This was primarily due to an increase in Communication Technology revenue of \$965,000 as the client districts are purchasing more bandwidth through the internet services contract. Also VoIP services and desktop support services continue to grow.
- The Center's revenues from grants and contributions decreased approximately \$205,800 from the prior year. The primary reason for the decrease was due to a decrease of \$700,000 in the Head Start program. This decrease was offset by a \$500,000 increase in Foundation School Program funding settle up, TRS On-Behalf percentage, and Early Childhood Intervention grant funds.
- The Center's total expenditures for governmental activities decreased approximately \$282,200 from the prior year. This was primarily due to the decreases in grant revenues described above, which resulted in direct decreases in expenditures related to the respective programs.

**Table A-2**  
**Region 16 Education Service Center**  
**CHANGES IN NET POSITION**  
*(in thousands of dollars)*

	Governmental Activities 2014	Governmental Activities 2013	Total % Change
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 10,586.2	\$ 9,322.9	13.6%
Operating Grants and Contributions	21,646.3	22,612.7	-4.3%
General Revenues:			
Grants and Contributions not Restricted	3,131.5	2,370.9	32.1%
Investment Earnings	8.4	9.9	-15.2%
Miscellaneous Revenues	142.5	436.7	-67.4%
Total Revenue	<u>\$ 35,514.9</u>	<u>\$ 34,753.1</u>	<u>2.2%</u>
<b>Expenses:</b>			
Instruction	\$ 5,463.0	\$ 5,374.8	1.6%
Instructional Resources and Media Services	65.0	80.1	-18.9%
Curriculum and Staff Development	5,288.9	5,820.0	-9.1%
Instructional Leadership	1,552.2	1,619.4	-4.1%
School Leadership	381.0	395.4	-3.6%
Guidance, Counseling and Evaluation Services	40.6	35.1	15.7%
Social Work Services	238.5	286.5	-16.8%
Health Services	216.6	296.9	-27.0%
Food Services	305.1	302.6	0.8%
General Administration	1,768.7	1,836.6	-3.7%
Facilities Maintenance and Operations	2,846.7	2,285.6	24.5%
Security and Monitoring Services	0.6	2.3	-73.9%
Data Processing Services	2,713.1	2,241.6	21.0%
Community Services	1,192.9	1,436.0	-16.9%
School District Administrative Support (ESC)	5,126.9	4,741.1	8.1%
Debt Service - Interest on Long Term Debt	18.7	42.0	-55.5%
Payments Related to Shared Service Arrangements	7,053.3	7,185.7	-1.8%
Depreciation - Unallocated		572.3	-100.0%
Total Expenses	<u>\$ 34,271.8</u>	<u>\$ 34,554.0</u>	<u>-0.8%</u>
Increase (Decrease) in Net Position Before Transfers	\$ 1,243.1	\$ 199.1	524.4%
Net Position at Beginning of Year	<u>15,124.9</u>	<u>14,925.8</u>	
Net Position at End of Year	<u>\$ 16,368.0</u>	<u>\$ 15,124.9</u>	

**Figure A-3 Sources of Revenue For Fiscal Year 2014**



**FINANCIAL ANALYSIS OF THE CENTER’S FUNDS**

As the Center completed the year, the governmental fund balances reported a combined fund balance of \$6.37 million, about \$385,000 more than the prior year. The revenues from governmental fund types totaled \$35.51 million, an increase of approximately \$750,000, or 2.2%, from the preceding year.

Local revenues increased approximately \$1.02 million, to \$10.80 million. This was primarily due to an increase in Communication Technology revenue of \$965,000 as the client districts are purchasing more bandwidth through the internet services contract. Also VoIP services and desktop support services continue to grow.

State revenues increased approximately \$254,000, to \$2.84 million primarily due to a Foundation School Program funding settle up and an increase in TRS On-Behalf percentage.

Federal revenue decreased approximately \$520,000, to \$21.87 million primarily due to sequestration, which caused a major decrease in Head Start funding.

**General Fund Budgetary Highlights**

Over the course of the year, the Center amended its budget several times. The primary budget revisions were due to the following reasons:

- Budgeted local expenditures increased due to the carpet replacement projects along with an increase in TRS On-Behalf.
- Budgeted local revenues increased due to the Foundation School Program funding settle up and an increase in TRS On-Behalf.
- Budgeted local revenues decreased due to providing a discount to districts on the Computer Services contract.
- Budgeted local revenues and expenditures increased due to increased bandwidth being purchased by districts.

After these adjustments, actual expenditures were approximately \$265,000, or about 2.2%, below final budget amounts. Revenues available were approximately \$84,000, or about 0.7%, above the final budgeted amount.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

- At the end of 2014, the Center had invested \$16.67 million in a broad range of capital assets, including land, buildings and furniture & equipment (See Table A-3.) This amount represents a net increase (including additions and retirements) of \$1.06 million or 6.8% from the prior year.
- The primary factor causing the increase in capital assets was the addition of a variety of technology equipment as well as updates to the buildings.

**Table A-3**  
**Region 16 Education Service Center**  
**CAPITAL ASSETS**  
*(in thousands of dollars)*

	2014	2013	Total % Change
Land	\$ 670.3	\$ 670.3	0.0%
Buildings and Improvements	10,701.9	10,377.9	3.1%
Equipment	5,300.9	4,562.4	16.2%
Total Cost	\$ 16,673.1	\$ 15,610.6	6.8%
Total Accumulated Depreciation	(6,804.9)	(6,171.6)	10.3%
Net Capital Assets	\$ 9,868.2	\$ 9,439.0	4.5%

### Long-Term Debt

At year-end the Center had \$220,200 in lease payables outstanding as shown in Table A-4. More detailed information about the Center's debt is presented in the Notes to the Financial Statements.

**Table A-4**  
**Region 16 Education Service Center**  
**LONG-TERM DEBT**  
*(in thousands of dollars)*

	2014	2013	Total % Change
Leases Payable	\$ 220.2	\$ 644.8	-65.8%

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Center will experience a decrease in local funding primarily due to a decrease in EDNET16 revenue of \$650,000 as less revenue will be generated from the wealth equalization contracts.

The Head Start program will experience approximately a \$1,000,000 increase due to the refunding of lost revenue due to sequestration at the federal level. We should also experience \$200,000 additional revenue in our Early Childhood Intervention program as the grant increased. However, this will be offset due to losing the Adult Basic Education grant.

The Center's indirect cost (IDC) rate decreased from 7.245% to 6.893% effective July 1, 2014. However, this decrease is not anticipated to generate a decrease in IDC revenue due to the increase in grant funding that is anticipated.

## **CONTACTING THE CENTER'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, grantors 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, please contact the Center's Business Office.

**BASIC FINANCIAL STATEMENTS**

REGION 16 EDUCATION SERVICE CENTER

Exhibit A-1

STATEMENT OF NET POSITION  
AUGUST 31, 2014

<u>Data Control Codes</u>		<u>Primary Government</u>
		<u>Governmental Activities</u>
	<b>ASSETS AND OTHER DEBITS:</b>	
1110	Cash in Bank	\$ 1,423,341
1120	Temporary Investments	3,049,478
	Receivables:	
1240	Due from Other Governments	2,074,304
1290	Other Receivables	489,191
1300	Inventories	103,583
1410	Prepayments	156,102
	Capital Assets:	
1510	Land	670,303
1520	Buildings, Net	7,360,977
1530	Furniture and Equipment, Net	<u>1,836,979</u>
1000	Total Assets	\$ <u>17,164,258</u>
	<b>LIABILITIES:</b>	
	Current Liabilities:	
2110	Accounts Payable	\$ 378,948
2150	Payroll Deductions Payable	8,411
2160	Accrued Wages Payable	76,782
2200	Accrued Expenditures/Expenses	3,531
2300	Unearned Revenue	108,390
2501	Loans Payable Due Within One Year	<u>220,200</u>
2000	Total Liabilities	\$ <u>796,262</u>
	<b>NET POSITION:</b>	
3200	Net Investment in Capital Assets	\$ 9,648,059
3890	Restricted for Other Purposes	2,836,451
3900	Unrestricted Net Position	<u>3,883,486</u>
3000	Total Net Position	\$ <u><u>16,367,996</u></u>

The accompanying notes are an integral part of this statement.

REGION 16 EDUCATION SERVICE CENTER

Exhibit B-1

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Expenditures:					
0011	Instruction	\$ 5,463,030	\$ 845,877	\$ 4,463,648	\$ (153,505)
0012	Instructional Resources & Media	65,035	39,132	26,993	1,090
0013	Curriculum & Instructional Staff Dev.	5,288,870	2,077,987	2,875,306	(335,577)
0021	Instructional Leadership	1,552,221	496,289	852,118	(203,814)
0023	School Leadership	381,012		381,012	0
0031	Guidance, Counseling & Evaluation	40,628		40,628	0
0032	Social Work Services	238,481		238,481	0
0033	Health Services	216,611	405	216,206	0
0035	Food Services	305,099		310,889	5,790
0041	General Administration	1,768,728			(1,768,728)
0051	Facilities Maintenance and Operations	2,846,672	2,299,886	755,371	208,585
0052	Security & Monitoring Services	550		550	0
0053	Data Processing Services	2,713,057	3,287,810	25,559	600,312
0061	Community Services	1,192,924	19,545	1,146,764	(26,615)
0062	School District Administrative Support	5,126,878	1,519,302	3,259,538	(348,038)
0072	Interest on Long Term Debt	18,769			(18,769)
0093	Payments to Fiscal Agents/Members	7,053,262		7,053,262	0
TP	Total Primary Government	\$ <u>34,271,827</u>	\$ <u>10,586,233</u>	\$ <u>21,646,325</u>	\$ <u>(2,039,269)</u>

Data  
Control  
Codes

General Revenues:

GC	Grants and Contributions Not Restricted	\$ 3,131,470
IE	Investment Earnings	8,371
MI	Miscellaneous Local and Intermediate Revenue	<u>142,522</u>
TG	Total General Revenues, Special Items, and Transfers	\$ <u>3,282,363</u>
CN	Change in Net Position	\$ 1,243,094
NB	Net Position - Beginning	<u>15,124,902</u>
NE	Net Position - Ending	\$ <u><u>16,367,996</u></u>

The accompanying notes are an integral part of this statement.

REGION 16 EDUCATION SERVICE CENTER

Exhibit C-1

BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2014

Data Control Codes		Major Funds					Other Governmental Funds	Total Governmental Funds
		General Fund	Head Start	SSA Head Start	EdNet 16	Early Childhood Intervention		
ASSETS AND OTHER DEBITS:								
1110	Cash in Bank	\$ 629,262	\$ 37,301	\$	\$	\$	\$ 481,921	\$ 1,148,484
1120	Temporary Investments	1,096,473			1,953,005			3,049,478
	Receivables:							
1240	Due from Other Governments	103,688		234,866	880,195	138,803	716,752	2,074,304
1260	Due from Other Funds	1,378,099						1,378,099
1290	Other Receivables	384,807		1,816	9,875	75,312		471,810
1300	Inventories	11,478						11,478
1410	Prepayments	126,201			8,282			134,483
1000	Total Assets	<u>\$ 3,730,008</u>	<u>\$ 37,301</u>	<u>\$ 236,682</u>	<u>\$ 2,851,357</u>	<u>\$ 214,115</u>	<u>\$ 1,198,673</u>	<u>\$ 8,268,136</u>
LIABILITIES:								
Current Liabilities:								
2110	Accounts Payable	\$ 131,385	\$ 22,257	\$ 27,404	\$	\$ 91,095	\$ 90,244	\$ 362,385
2150	Payroll Deductions Payable	8,411						8,411
2160	Accrued Wages Payable	39,765	13,754	17,135			6,128	76,782
2170	Due to Other Funds			190,485	432,278	123,020	632,316	1,378,099
2200	Accrued Expenditures	9	1,290	1,658			574	3,531
2300	Unearned Revenue	14,306					52,039	66,345
2000	Total Liabilities	<u>\$ 193,876</u>	<u>\$ 37,301</u>	<u>\$ 236,682</u>	<u>\$ 432,278</u>	<u>\$ 214,115</u>	<u>\$ 781,301</u>	<u>\$ 1,895,553</u>
FUND BALANCES:								
Nonspendable Fund Balance:								
3410	Inventories	\$ 11,478	\$	\$	\$	\$	\$	\$ 11,478
3430	Prepaid Items	126,201						126,201
Restricted Fund Balance:								
3490	Other Restricted				2,419,079		417,372	2,836,451
Committed Fund Balance:								
3510	Construction	796,705						796,705
3525	Retirement of Notes Payable	225,650						225,650
3545	Other Committed	708,918						708,918
Assigned Fund Balance:								
3570	Capital Expenditures for Equipment	60,000						60,000
3600	Unassigned Fund Balance	1,607,180						1,607,180
3000	Total Fund Balances	<u>\$ 3,536,132</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,419,079</u>	<u>\$ 0</u>	<u>\$ 417,372</u>	<u>\$ 6,372,583</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3,730,008</u>	<u>\$ 37,301</u>	<u>\$ 236,682</u>	<u>\$ 2,851,357</u>	<u>\$ 214,115</u>	<u>\$ 1,198,673</u>	<u>\$ 8,268,136</u>

The accompanying notes are an integral part of this statement.

REGION 16 EDUCATION SERVICE CENTER

Exhibit C-2

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT  
OF NET POSITION  
AUGUST 31, 2014

Data  
Control  
Codes

	Total Fund Balances - Governmental Funds (Exhibit C-1)	\$ 6,372,583
1	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 \$14,533,291 and the accumulated depreciation was (\$5,491,193). In addition, long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. The long-term liabilities at the beginning of the year were (\$644,774). The net effect of including beginning balances for capital assets (net of depreciation) and long-term liabilities is to increase net position.	8,397,324
2	The Center uses internal service funds to charge the costs of certain activities to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	771,266
3	Current year capital outlays and long-term liability payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term liabilities in the government-wide financial statements. The net effect of including current year capital outlays of \$981,449 and principal payments of \$424,574 is to increase net position.	1,406,023
4	The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation excluding Internal Service Fund items is to decrease net position.	<u>(579,200)</u>
19	Total Net Position of Governmental Activities (Exhibit A-1)	<u>\$ 16,367,996</u>

The accompanying notes are an integral part of this statement.

REGION 16 EDUCATION SERVICE CENTER

Exhibit C-3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Major Funds						Total Governmental Funds	
	General Fund	Head Start	SSA Head Start	EdNet 16	Early Childhood Intervention	Other Governmental Funds		
REVENUES:								
5700	Local and Intermediate Sources	\$ 8,532,354	\$	\$	907,698	\$ 1,092,156	\$ 263,102	\$ 10,795,310
5800	State Program Revenues	2,154,304				302,622	387,687	2,844,613
5900	Federal Program Revenues	977,166	4,136,770	10,920,093		637,240	5,201,061	21,872,330
5020	Total Revenues	\$ 11,663,824	\$ 4,136,770	\$ 10,920,093	\$ 907,698	\$ 2,032,018	\$ 5,851,850	\$ 35,512,253
EXPENDITURES:								
0011	Instruction	\$ 91,047	\$ 2,925,909	\$ 270,152	\$	\$ 1,529,000	\$ 560,384	\$ 5,376,492
0012	Instructional Resources & Media	38,042		26,993				65,035
0013	Curriculum & Instructional Staff Dev.	2,077,208		713,905	66,091		2,313,740	5,170,944
0021	Instructional Leadership	430,990		502,538		436,267	147,795	1,517,590
0023	School Leadership		381,012					381,012
0031	Guidance, Counseling & Evaluation		23,230				17,398	40,628
0032	Social Work Services		238,481					238,481
0033	Health Services		215,857			754		216,611
0035	Food Services		64,562				246,327	310,889
0041	General Administration	1,729,267						1,729,267
0051	Facilities Maintenance and Operations	2,063,817	287,169	243,513		29,633	211,970	2,836,102
0052	Security & Monitoring Services		550					550
0053	Data Processing Services	2,679,818			523,127		25,559	3,228,504
0061	Community Services			1,107,320		36,364	22,625	1,166,309
0062	School District Administrative Support	1,734,789		1,599,486			1,688,411	5,022,686
0071	Principal on Long Term Debt	424,574						424,574
0072	Interest on Long Term Debt	26,726						26,726
0081	Facilities Acquisition and Construction	323,955						323,955
0093	Payments to Fiscal Agents/Members			6,456,186			597,076	7,053,262
6030	Total Expenditures	\$ 11,620,233	\$ 4,136,770	\$ 10,920,093	\$ 589,218	\$ 2,032,018	\$ 5,831,285	\$ 35,129,617
1100	Excess of Revenues Over Expenditures	\$ 43,591	\$ 0	\$ 0	\$ 318,480	\$ 0	\$ 20,565	\$ 382,636
OTHER FINANCING SOURCES:								
7912	Sale of Personal Property	\$ 2,666	\$	\$	\$	\$	\$	\$ 2,666
7080	Total Other Financing Sources	\$ 2,666	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,666
1200	Net Change in Fund Balance	\$ 46,257	\$ 0	\$ 0	\$ 318,480	\$ 0	\$ 20,565	\$ 385,302
0100	September 1 - Fund Balance	3,489,875	0	0	2,100,599	0	396,807	5,987,281
3000	August 31 - Fund Balance	\$ 3,536,132	\$ 0	\$ 0	\$ 2,419,079	\$ 0	\$ 417,372	\$ 6,372,583

The accompanying notes are an integral part of this statement.



REGION 16 EDUCATION SERVICE CENTER

Exhibit C-4

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2014

Net Change in Fund Balances - Total Governmental Funds (Exhibit C-3) \$ 385,302

Amounts reported for governmental activities in the Statement of Activities (Exhibit B-1) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, net of adjustments. 402,249

Repayment of long-term liabilities is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net position. This amount of repayments is an increase to net position. 424,574

Other liabilities recognized on the statement of net position in the prior year, such as accrued compensated absences, were written off during the current year. The result of this transaction increased net position. 16,458

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities (Exhibit D-2). 14,511

Change in Net Position of Governmental Activities (Exhibit B-1) \$ 1,243,094

The accompanying notes are an integral part of this statement.

REGION 16 EDUCATION SERVICE CENTER

Exhibit D-1

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2014

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ 274,857
Other Receivables	17,381
Inventories	92,105
Prepayments	21,619
Furniture and Equipment, Net	<u>423,912</u>
Total Assets	<u>\$ 829,874</u>
LIABILITIES:	
Accounts Payable	\$ 16,563
Unearned Revenues	<u>42,045</u>
Total Liabilities	<u>\$ 58,608</u>
NET POSITION:	
Net Investment in Capital Assets	\$ 423,912
Unrestricted Net Position	<u>347,354</u>
Total Net Position	<u><u>\$ 771,266</u></u>

The accompanying notes are an integral part of this statement.

REGION 16 EDUCATION SERVICE CENTER

Exhibit D-2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>Governmental Activities</u> <u>Internal</u> <u>Service Funds</u>
OPERATING REVENUES	
Charges to Other Funds	\$ 2,022,137
Total Revenues	<u>\$ 2,022,137</u>
OPERATING EXPENSES	
Payroll Costs	\$ 778,559
Professional and Contracted Services	893,285
Supplies and Materials	178,828
Other Operating Expenses	52,764
Depreciation	104,190
Total Expenses	<u>\$ 2,007,626</u>
Change in Net Position	\$ 14,511
Net Position - September 1 (Beginning)	<u>756,755</u>
Net Position - August 31 (Ending)	<u><u>\$ 771,266</u></u>

The accompanying notes are an integral part of this statement.

REGION 16 EDUCATION SERVICE CENTER

Exhibit D-3

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>Governmental Activities Internal Service Funds</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash Flows from Operating Activities	
Charges to Users	\$ 31,663
Assessments to Other Funds	1,631,150
Payments to Employees for Services	(778,559)
Payments for Contracted Services	(891,062)
Payments to Suppliers	(208,075)
Payments for Other Operating Expenses	<u>(32,653)</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u>(247,536)</u>
Cash Flows from Investing Activities	
Capital Expenditures	\$ <u>(131,140)</u>
Net Cash Used in Financing Activities	\$ <u>(131,140)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (378,676)
Cash and Cash Equivalents at Beginning of the Year	<u>653,533</u>
Cash and Cash Equivalents at End of Year	\$ <u><u>274,857</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 14,511
Changes in Assets and Liabilities	
Change in Other Receivables	899
Change in Inventories	18,421
Change in Prepaid Expenses	2,223
Change in Accounts Payable	(47,668)
Change in Due to Other Funds	(360,223)
Change in Unearned Revenues	20,111
Depreciation	<u>104,190</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u><u>(247,536)</u></u>

The accompanying notes are an integral part of this statement.

REGION 16 EDUCATION SERVICE CENTER

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
AUGUST 31, 2014

	<u>Agency Funds</u>
ASSETS:	
Cash and Temporary Investments	\$ 61,649
Other Receivables	<u>428</u>
Total Assets	\$ <u>62,077</u>
LIABILITIES:	
Due to Other Governments	\$ <u>62,077</u>
Total Liabilities	\$ <u>62,077</u>
NET POSITION:	
Unrestricted Net Position	\$ <u><u>0</u></u>

The accompanying notes are an integral part of the financial statements.

**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Region 16 Education Service Center (the Center) is a public educational agency operating under the applicable laws and regulations of the State of Texas. The Center's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FASRG). The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Center are described below.

**A. REPORTING ENTITY**

The Board of Directors (the Board), a seven-member group, has governance responsibilities over all activities related to ESC education services within the jurisdiction of the Center. The Board of Directors is elected by school board delegates of its region. The Board has the authority to make decisions, appoint administrators and managers, significantly influence operations, and has the primary accountability for fiscal matters. The Center is not included in any other governmental "reporting entity" as defined in Governmental Accounting and Financial Reporting Standards. There are no component units included within the reporting entity.

The Center receives funding from local, state, and federal government sources and must comply with the requirements of these funding entities.

**B. BASIS OF ACCOUNTING AND PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities display information about the government-wide entity as a whole. These statements report information on all of the non-fiduciary activities of the Center. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support (i.e., internal service funds are considered governmental activities and not business-type activities). The Center currently has no business-type activities.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or Statement of Net Position. However, the Center has no long-term liabilities to report.

These government-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/due from 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 the internal service fund are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds, if any, remain as due to/due from on the Government-Wide Statement of Net Position.

The Center reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense is specifically identified by function and is included in the direct expense to each function allocated.

**FUND FINANCIAL STATEMENTS**

Separate financial statements are provided for governmental funds and proprietary funds. Major governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from local sources consist primarily of charges for services. State revenues are recognized under the susceptible-to-accrual concept. Miscellaneous revenues including EdNet 16 revenues are accrued when calculated and billed to the applicable districts. Investment earnings are recorded as earned, since they are both measurable and available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Center applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989.

## REGION 16 EDUCATION SERVICE CENTER

### NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguish operating revenues and expenses from non-operating 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 would be non-operating.

The Center reports the following major governmental funds:

#### GOVERNMENTAL FUND TYPES

**General Fund** – This fund is established to account for resources used for general operations. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a budgeted fund and unassigned fund balances are considered resources available for current operations.

**Major Special Revenue Funds** –Head Start, SSA Head Start, Early Childhood Intervention and EdNet 16 are reported as major funds and are accounted for as described below.

Additionally, the Center reports the following fund types:

**Other Special Revenue Funds** – These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance generally is accounted for in a special revenue fund. Except in limited circumstances, any unused balances are returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity for the various sources of funds.

#### PROPRIETARY FUND TYPES

**Internal Service Funds** – Internal service funds are used to account for revenues and expenses related to services provided to parties inside the Center, specifically for the operation of its building activities, duplication, and computer services.

#### FIDUCIARY FUNDS

**Agency Funds** – The Center uses Agency Funds to account for funds held on behalf of other organizations. These funds have no revenue, expenditures or equity, and the Center does not budget for them.

### C. BASIS OF ACCOUNTING APPLICABLE TO ALL FINANCIAL STATEMENTS

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and work in progress are reported in the government-wide financial statements. Capital assets are defined by the Center as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets useful lives are not capitalized.



**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

Revenues from state and federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant. Funds received but unexpended are reflected as unearned revenues, and funds expended but not yet received are shown as receivables. If balances have not been expended by the end of the project period, grantors generally require the Center to refund all or part of the unused amount. Other accounts receivable are recognized when billed.

Supplies and materials are debited to expenditures when purchased.

Since internal service funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid overstating the revenues and expenses of the Center as a whole.

In the event that the Center incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

In accordance with the FASRG, the Center has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the Center's accounting system uses codes and the code structure presented in the Accounting Code Section of the FASRG. Mandatory codes are utilized in the form provided in that section.

**D. BUDGETARY DATA**

The official budget was prepared on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America, for the general fund. The remaining special revenue funds adopt project-length budgets which do not correspond to the Center's fiscal year. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- a. Prior to August 20 of the preceding fiscal year, the Center prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must be given.
- c. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The budget is prepared and controlled at the function level for the general fund as a whole and is amended at this level as needed. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made before the fact and they are reflected in the official minutes of the Board. During the year, several amendments were necessary in several functions.

REGION 16 EDUCATION SERVICE CENTER

NOTES TO FINANCIAL STATEMENTS

**E. ENCUMBRANCE ACCOUNTING**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2014.

**F. FUND EQUITY**

The Center has adopted GASB Statement 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

**Non-spendable** – Portion of fund balance that is not in spendable form or is legally or contractually required to be maintained intact, such as inventories.

**Restricted** – Portion of fund balance that is constrained for specific purposes because of restrictions by third parties (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

**Committed** – Portion of fund balance that is constrained for specific purposes by the highest level of decision making authority (Board of Directors). Only this same authority can un-commit funds.

**Assigned** – Portion of fund balance that the Center intends to use for specific purposes as expressed by authorized administrators. The Executive Director and Chief Financial Officer have the ability to assign fund balance.

**Unassigned** – Amounts not included in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Center considers restricted funds to have been spent first. When an expenditure for which committed, assigned, or unassigned fund balances are available, the Center considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

The Board of Directors has adopted a fund balance policy stating the following: The Guidance Document for Regional Education Service Centers establishes an unassigned fund balance limitation. As part of the development of the proposed annual budget, the executive team shall review the amount of unassigned fund balance to ensure compliance with this document.

The Center's Board of Directors has committed \$1,731,273 of the General Fund's fund balance for future construction, retirement of long-term debt and other commitments. In addition, the Executive Director and Chief Financial Officer have assigned \$60,000 for capital expenditures.

REGION 16 EDUCATION SERVICE CENTER

NOTES TO FINANCIAL STATEMENTS

The Center administers the special revenue fund entitled EdNet 16. The excess of revenues received, including Region 16 Education Service Center's share of wealth equalization agreements, over expenditures incurred related to the consortiums is reported as restricted fund balance and amounted to \$2,419,079. In addition, the Center administers other special revenue funds which obtain funding from the member districts and maintain a fund balance. The amount of restricted fund balance related to these funds totaled \$417,372 at August 31, 2014.

**G. CASH AND CASH EQUIVALENTS – PROPRIETARY FUNDS**

For purposes of the statement of cash flows for proprietary fund types, the Center considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

**H. NET POSITION ON THE STATEMENT OF NET POSITION**

Net position on the Statement of Net Position include the following:

**Net Investment in Capital Assets** – this component of net position represents the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding any unspent bond proceeds that is directly attributable to the acquisition, construction, or improvement of those assets.

**Restricted for Other Purposes** – this component of net position represents amounts restricted for specific purposes. This includes the balance in EdNet 16 and other special revenue funds.

**Unrestricted** – the difference between assets and liabilities that is not reported in Net Position Net Investment in Capital Assets.

**I. MANAGEMENT'S USE OF ESTIMATES**

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

**2. DEPOSITS AND INVESTMENTS**

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) (the Act) 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, and (9) bid solicitation preferences for certificates of deposit.

**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

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, and (10) 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.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the Center has adopted deposit and investment policies.

- a. *Custodial Credit Risk* – Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The Center's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The Center is not exposed to custodial credit risk for its deposits, and investments in certificates of deposit are all covered by depository insurance and pledged securities held by a third party in the Center's name.
- b. *Concentration of Credit Risk* – The investment policy of the Center contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At August 31, 2014, all of the Center's investments are in accounts with its depository bank, and are completely covered by pledged securities as described in the preceding paragraph.
- c. *Credit Risk* – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. In addition, as of August 31, 2014, the Center's investments in TexPool and Lone Star investment pools were both rated AAA-m by Standard and Poor's.
- d. *Interest Rate Risk* – The risk that changes in interest rates will adversely affect the fair value of investments. The Center requires the investment portfolio to have maturities of not more than one year to limit this risk.
- e. *Foreign Currency Risk* – The risk that changes in exchange rates will adversely affect the fair value of an investment. The Center does not invest in foreign currency.

**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

The carrying amount of the Center’s cash and temporary investments at August 31, 2014, approximates fair value and consisted of the following shown below:

	General Fund	Special Revenue Funds	Internal Service Funds	Governmental Funds Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Cash in Bank	\$ 629,262	\$ 519,222	\$ 274,857	\$ 1,423,341
TexPool Investments	449,559	98,416		547,975
Lone Star Investment Pool	<u>646,914</u>	<u>1,854,589</u>		<u>2,501,503</u>
Total Cash and Investments - Statement of Net Position	<u>\$ 1,725,735</u>	<u>\$ 2,472,227</u>	<u>\$ 274,857</u>	\$ 4,472,819
Cash and Investments - Fiduciary Funds				<u>61,649</u>
Total Cash and Investments				<u>\$ 4,534,468</u>

Public Funds Investment Pools

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The Center’s investment in Pools are reported at an amount determined by the fair value per share of the Pool’s underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like Pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

The Center’s investment in Investment Pools include Lone Star Investment Pool and TexPool Participant Services. Lone Star Investment Pool’s regulatory oversight agent is the Texas Association of School Boards (TASB) and their credit risk rating is AAA-m. Their financial reports may be obtained by writing TASB, Inc., P.O. Box 400, Austin, TX 78767-0400. TexPool Participant Services’ regulatory oversight agent is the Texas Treasury SafeKeeping Trust Company and their credit rating AAA-m. Their financial reports may be obtained by writing Lehman Brothers, Inc., 111 Bagby, Suite 2350, Houston, TX 77002.

**3. PROPERTY TAXES**

The Center does not assess or collect property taxes.

**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**4. DUE FROM OTHER GOVERNMENTS**

The due from other governments balance represents \$1,194,109 of amounts due from Texas Education Agency and others for various federal and state projects as well as \$880,195 of amounts receivable from Chapter 41 districts as part of their wealth equalization agreements.

**5. INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at August 31, 2014, consisted of the following individual fund receivables and payables:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund		
Special Revenue Funds	\$ 1,378,099	\$ _____
Special Revenue Fund		
General Fund	\$ _____ 0	\$ 1,378,099
	<u>\$ 1,378,099</u>	<u>\$ 1,378,099</u>

**6. CAPITAL ASSETS**

Capital asset activity, including those used for governmental activities and those used in internal service funds, for the year ended August 31, 2014, was as follows:

	<u>9/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>8/31/2014</u>
Capital Assets:				
Land	\$ 670,303	\$ _____	\$ _____	\$ 670,303
Building and Improvements	10,377,946	323,955	_____	10,701,901
Furniture and Equipment	4,562,443	788,634	50,156	5,300,921
	<u>\$ 15,610,692</u>	<u>\$ 1,112,589</u>	<u>\$ 50,156</u>	<u>\$ 16,673,125</u>
Accumulated Depreciation:				
Buildings and Improvements	\$ 3,115,177	\$ 225,747	\$ _____	\$ 3,340,924
Furniture and Equipment	3,056,455	457,643	50,156	3,463,942
	<u>\$ 6,171,632</u>	<u>\$ 683,390</u>	<u>\$ 50,156</u>	<u>\$ 6,804,866</u>
Total Net Value of Capital Assets	<u>\$ 9,439,060</u>	<u>\$ 429,199</u>	<u>\$ _____ 0</u>	<u>\$ 9,868,259</u>

Capital assets are being depreciated using the straight line method over the following useful lives:

Buildings and Improvements	15-50 years
Furniture and Equipment	5-20 years
Vehicles	7 years

**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

Depreciation expense for assets used in governmental activities was charged to functions of the primary government as follows:

Instruction	\$	121,882
Curriculum and Instructional Staff Development		117,997
Instructional Leadership		34,631
General Administration		39,461
Facilities Maintenance and Operations		63,511
Data Processing Services		60,530
Community Services		26,615
School District Administrative Support Services		<u>114,573</u>
Total General Fixed Asset Depreciation	\$	579,200
Internal Service Fund Fixed Asset Depreciation		<u>104,190</u>
Total Depreciation	\$	<u><u>683,390</u></u>

**7. UNEARNED REVENUES**

Governmental funds report unearned revenue in connection with revenues received that are not considered to be available to liquidate liabilities of the current period. Unearned revenues consisted of the following at August 31, 2014:

<b>Unearned Local, State, and Federal Grant Amounts</b>		
General Fund	\$	14,306
Special Revenue Funds		<u>52,039</u>
Total Reported on the Governmental Funds (C-1)	\$	<u>66,345</u>
<b>Insurance Recovery</b>		
Internal Service Funds	\$	<u>42,045</u>
Total Reported on Statement of Net Position (A-1)	\$	<u><u>108,390</u></u>

**8. LONG-TERM LIABILITIES**

The Center executed a capital lease agreement for the purchase of an administration building. During the year ended August 31, 2010 the Center refinanced this lease with Capital One Public Funding, LLC. This reduced the Center's interest rate from 6.53% to 4.95%. The estimated savings on this refinance was \$238,763. Interest paid during the year ended August 31, 2014 was \$26,726. All of the remaining balance at August 31, 2014 is scheduled to be paid in the 2015 fiscal year.

A summary of changes in capital leases payable for the year ended August 31, 2014, is as follows:

Description	Issue Date	Interest Rate	Original Amount	Balance 9/1/2013	Retired	Balance 8/31/2014
Building Lease- Purchase (Refinance)	2/26/2010	4.95%	\$ 4,500,000	\$ <u>644,774</u>	\$ <u>424,574</u>	\$ <u>220,200</u>

REGION 16 EDUCATION SERVICE CENTER

NOTES TO FINANCIAL STATEMENTS

9. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Funds	Total
Interest Income	\$ 6,243	\$ 2,127	\$ 8,370
Tuitions	290,993	171,674	462,667
Services to Member Districts	8,123,340		8,123,340
Services to Departments/Clients	42,234	1,092,157	1,134,391
Chapter 41 Recapture Gains		890,070	890,070
Other	69,544	106,928	176,472
	<u>\$ 8,532,354</u>	<u>\$ 2,262,956</u>	<u>\$ 10,795,310</u>

10. GENERAL FUND FEDERAL SOURCE REVENUES

Federal revenues recognized in the General Fund consist of \$977,166 in indirect cost revenue.

11. DEFINED BENEFIT PENSION PLAN

Plan Description – All employees of the Center employed for one-half or more of the standard work load and who are not exempt from membership under Texas Government Code, participate in 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 system of Texas. It operates primarily under the provisions of the Texas Constitution and Texas Government Code. TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code. TRS issues a 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 TRS at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publication heading.

Funding Policy – Contribution requirements are not actuarially determined but are legally established each biennium pursuant to state funding policy. State law provides for a member contribution rate of 6.40% for fiscal years 2012, 2013 and 2014, and a state contribution rate of 6.00%, 6.40% and 6.80%, respectively. In certain instances, the Center is required to make all or a portion of the State’s contribution. State contributions TRS made on behalf of the Center’s employees for the years ended August 31, 2012, 2013 and 2014, were \$352,245, \$405,386, and \$537,064 respectively, on the portion of the employees’ salaries not exceeding the statutory minimum and not funded from federal grants, equal to the required contributions for each year. In addition, payments made on behalf of the Center by the state for Medicare, Part D fringe benefits and salaries amounted to \$66,595, \$36,511, and \$38,629 for the years ended August 31, 2012, 2013 and 2014, respectively. The 2012 amount includes state payments on behalf of the Center for an Early Retiree Reinsurance Plan (ERRP) of \$32,368. The payroll for employees covered by the System for the year ended August 31, 2014, was \$14,214,411, and the Center’s total payroll was \$14,914,641.



**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**12. HEALTH INSURANCE**

During the year ended August 31, 2014 employees of the Center were covered by a health insurance plan. The Center contributed \$392 of the premium per month per employee. Employees, at their option, authorized payroll withholdings to pay contributions in excess of the \$392 and for dependents. Under this plan, the Center is not liable for costs incurred beyond premiums paid.

**13. WORKERS' AND UNEMPLOYMENT COMPENSATION POOLS**

During the year ended August 31, 2014, the Center met its statutory workers' compensation obligations and provided unemployment compensation coverage through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Workers' Compensation Pool

The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2013, the fund carries a discounted reserve of \$57,050,754 for future development on reported claims that have been incurred but not yet reported. For the year ended August 31, 2014, the Fund anticipates no additional liability to its members beyond their contractual obligations for payment of contributions.

Unemployment Compensation Pool

The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation Pool. For the year ended August 31, 2014, the Fund anticipates that the Center has no additional liability beyond the contractual obligation for payment of contribution.

**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**14. LITIGATION**

Management represents there is no litigation pending against the Center which would have a material effect on the financial statements.

**15. COMMITMENTS AND CONTINGENCIES**

Federal and State Funding

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

Operating Leases

The Center has entered into several operating leases for various space and equipment items. Minimum amounts due under these lease agreements for the next three years are as follows:

2015	\$	95,457
2016		89,280
2017		36,146

Lease expenditures during 2013-2014 were \$122,491.

Contingent Liabilities

The Center's Head Start cash balance is \$117,821 different than what is reflected by Head Start's Federal Financial Report, SF-425. It is the Center's contention that this difference is to be corrected by Head Start, therefore, being resolved in the Center's favor.

**16. SUBSEQUENT EVENTS**

The Center's management has evaluated subsequent events through January 5, 2015, the date which the financial statements were available for issue.

**17. SHARED SERVICE ARRANGEMENTS**

The Center is the fiscal agent for eight Shared Services Arrangements (SSAs) which provide services for various member school districts under federal grants. All services are provided by the fiscal agent. The Center accounts for the SSAs in special revenue funds prescribed by TEA in its FASRG. The Center utilizes the account codes and procedures outlined in the FASRG for SSAs using the applicable model.

**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO FINANCIAL STATEMENTS**

A brief description of these models are as follows:

**Model #1** – The fiscal agent receives the program funds from the granting agency and retains a portion of the monies for administrative and other services provided by the Center. The remainder of the monies flows to participating member school districts.

**Model #2** – The fiscal agent receives the program funds from the granting agency and administers the program. The fiscal agent manages the SSA’s financial matters, including budgeting, accounting, auditing and reporting.

**Model #3** – Member school districts agree to combine resources to provide a certain service. The fiscal agent manages the SSA’s financial matters, including budgeting, accounting, auditing and reporting.

Expenditures and other applicable information on the Center’s SSAs are noted below:

Program	Fund	FASRG Model #	Number of Member Districts	Member Districts	Fiscal Agent	Total
Title I, Part C - Migrant	301	1	33	\$ 534,288	\$ 684,868	\$ 1,219,156
Carl D Perkins	331	1	22	54,288	26,033	80,321
Title III, McKinney-Vento Homeless, Part C	295	1	2	8,500	23,117	31,617
Head Start Fund	294	1	17	6,456,186	4,781,801	11,237,987
Title III, Part A English Language Acquisitio	350	2	50		281,819	281,819
Adult Education and Literacy	309	2	56		485,905	485,905
Temporary Assistance for Needy Families	312	2	56		48,324	48,324
EdNet 16 Fund	446	3	62		5,889,218	5,889,218
				<u>\$ 7,053,262</u>	<u>\$ 12,221,085</u>	<u>\$ 19,274,347</u>

The Center’s SSAs noted above are further described below:

**Title I, Part C – Migrant** is a federally-funded SSA that provides migrant children with the opportunity to meet the same challenging state content and performance standards that the state has established for all children.

**Carl D. Perkins Career and Technology Program** is a federally-funded SSA that provides funding for the education of career and technology (vocational) students.

**Title III, McKinney-Vento Homeless, Part C** is a federally-funded SSA that is used by participating districts to provide academic and support services to students in homeless situations.

**Head Start** is a federally-funded SSA that provides a comprehensive child development program qualifying three and four year old children. This SSA also provides a comprehensive child development program for qualifying pregnant women and children birth to three years old.

REGION 16 EDUCATION SERVICE CENTER

NOTES TO FINANCIAL STATEMENTS

**Title III, Part A – English Language Acquisition and Language Enhancement** is a federally-funded SSA that provides training and technical assistance to school districts and charter schools allowing school districts to supplement the state required programs for limited English proficient students.

**Adult Education and Literacy** is a federally-funded SSA that provides funds and programs for adult education and literacy services to adults, age 16 and above, who do not have a high school diploma and are not enrolled in school.

**Temporary Assistance for Needy Families** is a federally-funded SSA that provides funds for educational training for eligible families who have not finished school.

**EdNet 16** is funded by the local independent school district members. This SSA provides instructional technology support and equipment to the 62 independent school district members. A management committee, made up of 13 superintendents and the Center's executive director, develops the budget for this SSA.

**REQUIRED SUPPLEMENTARY INFORMATION**

REGION 16 EDUCATION SERVICE CENTER

Exhibit G-1

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	1		2	3	Variance With Final Budget Favorable (Unfavorable)
	Budgeted Amounts			Actual	
	Original	Amended			
REVENUES:					
5700	Local and Intermediate Revenues	\$ 8,426,680	\$ 8,454,275	\$ 8,532,354	\$ 78,079
5800	State Program Revenues	1,946,851	2,165,951	2,154,304	(11,647)
5900	Federal Program Revenues	959,993	959,993	977,166	17,173
5020	Total Revenues	\$ 11,333,524	\$ 11,580,219	\$ 11,663,824	\$ 83,605
EXPENDITURES:					
0011	Instruction	\$ 112,535	\$ 96,879	\$ 91,047	\$ 5,832
0012	Instructional Resources & Media	36,123	41,123	38,042	3,081
0013	Curriculum & Instructional Staff Dev.	2,086,418	2,131,037	2,077,208	53,829
0021	Instructional Leadership	425,409	439,860	430,990	8,870
0041	General Administration	1,796,126	1,736,942	1,729,267	7,675
0051	Facilities Maintenance and Operations	1,998,975	2,079,176	2,063,817	15,359
0053	Data Processing Services	2,586,352	2,701,371	2,679,818	21,553
0062	School District Administrative Support	1,891,284	1,867,601	1,734,789	132,812
0071	Principal on Long Term Debt	424,575	424,575	424,574	1
0072	Interest on Long Term Debt	26,727	26,727	26,726	1
0081	Facilities Acquisition and Construction	50,000	340,000	323,955	16,045
6030	Total Expenditures	\$ 11,434,524	\$ 11,885,291	\$ 11,620,233	\$ 265,058
1100	Excess of Revenues Over Expenditures	\$ (101,000)	\$ (305,072)	\$ 43,591	\$ 348,663
OTHER FINANCING SOURCES					
7912	Sale of Real and Personal Property	\$ 1,000	\$ 1,754	\$ 2,666	\$ 912
7080	Total Other Financing Sources	\$ 1,000	\$ 1,754	\$ 2,666	\$ 912
1200	Net Change in Fund Balance	\$ (100,000)	\$ (303,318)	\$ 46,257	\$ 349,575
0100	September 1 - Fund Balance	3,489,875	3,489,875	3,489,875	0
3000	August 31 - Fund Balance	\$ 3,389,875	\$ 3,186,557	\$ 3,536,132	\$ 349,575

**OTHER SUPPLEMENTARY INFORMATION**  
**EXHIBITS H-1 THROUGH H-5**

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REGION 16 EDUCATION SERVICE CENTER

Exhibit H-1  
(Continued)

**COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2014**

Data Control Codes	211 ESEA T-I, Part A Support 84.010A	212 ESEA T-I, Part C Migrant 84.011A	225 IDEA Part B Preschool 84.173A	226 IDEA Part B Discretionary 84.027A	241 Child Nutrition 10.560	244 Career and Technical Education 84.048A	263 ESEA T-III, Part A ELA 84.365A	280 ESC NCLB Support 84.999	283 Child and Adult Care Food 10.558	284/288 Math/ Science Collaborative 84.366B	286 Texas Home Visiting 93.505	287 Texas Literacy Initiative 84.371C	
<b>ASSETS AND OTHER DEBITS:</b>													
1110	Cash and Temporary Investments	\$	\$	\$	\$	\$	\$	\$	\$	1,110	\$	\$	
Receivables:													
1240	Due from Other Governments	35,704	54,900	16,015	127,822	84,043	8,294	6,141	12,458	10,536	57,266	33,358	2,824
1000	Total Assets	<u>\$ 35,704</u>	<u>\$ 54,900</u>	<u>\$ 16,015</u>	<u>\$ 127,822</u>	<u>\$ 84,043</u>	<u>\$ 8,294</u>	<u>\$ 6,141</u>	<u>\$ 12,458</u>	<u>\$ 11,646</u>	<u>\$ 57,266</u>	<u>\$ 33,358</u>	<u>\$ 2,824</u>
<b>LIABILITIES:</b>													
Current Liabilities:													
2110	Accounts Payable	\$ 1,499	\$ 2,070	\$ 1,511	\$ 10,041	\$ 3,315	\$	\$	\$ 188	\$ 11,646	\$	\$ 732	\$ 1,649
2160	Accrued Wages Payable		1,023	407	2,515		363						
2170	Due to Other Funds	34,205	51,707	14,057	115,019	80,728	7,895	6,141	12,270		57,266	32,626	1,175
2200	Accrued Expenditures		100	40	247		36						
2300	Unearned Revenue												
2000	Total Liabilities	<u>\$ 35,704</u>	<u>\$ 54,900</u>	<u>\$ 16,015</u>	<u>\$ 127,822</u>	<u>\$ 84,043</u>	<u>\$ 8,294</u>	<u>\$ 6,141</u>	<u>\$ 12,458</u>	<u>\$ 11,646</u>	<u>\$ 57,266</u>	<u>\$ 33,358</u>	<u>\$ 2,824</u>
<b>FUND BALANCES:</b>													
Restricted Fund Balance:													
3490	Other Restricted	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
3000	Total Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
4000	Total Liabilities and Fund Balances	<u>\$ 35,704</u>	<u>\$ 54,900</u>	<u>\$ 16,015</u>	<u>\$ 127,822</u>	<u>\$ 84,043</u>	<u>\$ 8,294</u>	<u>\$ 6,141</u>	<u>\$ 12,458</u>	<u>\$ 11,646</u>	<u>\$ 57,266</u>	<u>\$ 33,358</u>	<u>\$ 2,824</u>



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REGION 16 EDUCATION SERVICE CENTER

Exhibit H-1  
(Concluded)

**COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2014**

Data Control Codes	295 SSA-Vento Homeless TEXSHEP 84.196A	301 SSA-T-III, Part C Migrant 84.011A	309 SSA-Adult Education & Literacy 84.002A	312 SSA-TANF Family Assistance 93.558	331 SSA-Carl D. Perkins Basic 84.048A	350 SSA-T-III, Part A ELA 84.365A	385 Visually Impaired ESC SSVI	431 State Adult Education & Literacy	Other State and Local Funds	481 NCLB Parental Involvement	482 P-16 Council	Total 2014	
<b>ASSETS AND OTHER DEBITS:</b>													
1110	Cash and Temporary Investments	\$	\$	\$	\$	\$	\$	\$	\$	63,131	\$ 381,079	\$ 36,601	\$ 481,921
Receivables:													
1240	Due from Other Governments	9,538	133,275	59,259	3,476	904	24,164	12,291	6,253	18,231			716,752
1000	Total Assets	<u>\$ 9,538</u>	<u>\$ 133,275</u>	<u>\$ 59,259</u>	<u>\$ 3,476</u>	<u>\$ 904</u>	<u>\$ 24,164</u>	<u>\$ 12,291</u>	<u>\$ 6,253</u>	<u>\$ 81,362</u>	<u>\$ 381,079</u>	<u>\$ 36,601</u>	<u>\$ 1,198,673</u>
<b>LIABILITIES:</b>													
Current Liabilities:													
2110	Accounts Payable	\$	\$ 18,249	\$ 21,875	\$ 1,752	\$	\$ 1,593	\$ 166	\$ 1,641	\$ 12,009	\$ 308	\$	\$ 90,244
2160	Accrued Wages Payable		1,454					366					6,128
2170	Due to Other Funds	9,538	113,429	37,384	1,724	904	22,571	11,751	4,612	17,314			632,316
2200	Accrued Expenditures		143					8					574
2300	Unearned Revenue									52,039			52,039
2000	Total Liabilities	<u>\$ 9,538</u>	<u>\$ 133,275</u>	<u>\$ 59,259</u>	<u>\$ 3,476</u>	<u>\$ 904</u>	<u>\$ 24,164</u>	<u>\$ 12,291</u>	<u>\$ 6,253</u>	<u>\$ 81,362</u>	<u>\$ 308</u>	<u>\$ 0</u>	<u>\$ 781,301</u>
<b>FUND BALANCES:</b>													
Restricted Fund Balance:													
3490	Other Restricted	\$	\$	\$	\$	\$	\$	\$	\$	\$ 380,771	\$ 36,601	\$	\$ 417,372
3000	Total Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 380,771</u>	<u>\$ 36,601</u>	<u>\$ 417,372</u>
4000	Total Liabilities and Fund Balances	<u>\$ 9,538</u>	<u>\$ 133,275</u>	<u>\$ 59,259</u>	<u>\$ 3,476</u>	<u>\$ 904</u>	<u>\$ 24,164</u>	<u>\$ 12,291</u>	<u>\$ 6,253</u>	<u>\$ 81,362</u>	<u>\$ 381,079</u>	<u>\$ 36,601</u>	<u>\$ 1,198,673</u>

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REGION 16 EDUCATION SERVICE CENTER

Exhibit H-2  
(Continued)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014**

Data Control Codes	211 ESEA T-I, Part A Support 84.010A	212 ESEA T-I, Part C Migrant 84.011A	225 IDEA Part B Preschool 84.173A	226 IDEA Part B Discretionary 84.027A	241 Child Nutrition 10.560	244 Career and Technical Education 84.048A	263 ESEA T-III, Part A ELA 84.365A	280 ESC NCLB Support 84.999	283 Child and Adult Care Food 10.558	284/288 Math/ Science Collaborative 84.366B	286 Texas Home Visiting 93.505	287 Texas Literacy Initiative 84.371C	
<b>REVENUES</b>													
5700	Local Revenue	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
5800	State Revenue												
5900	Federal Program Revenue	443,215	439,027	126,230	967,770	370,310	51,261	38,684	116,637	246,327	218,039	114,452	27,494
5020	Total Revenues	\$ 443,215	\$ 439,027	\$ 126,230	\$ 967,770	\$ 370,310	\$ 51,261	\$ 38,684	\$ 116,637	\$ 246,327	\$ 218,039	\$ 114,452	\$ 27,494
<b>EXPENDITURES</b>													
0011	Instruction	\$	\$	\$	12,528	\$	\$	\$	\$	\$	\$	72,313	\$
0013	Curriculum & Instructional Staff Dev.		222,087	125,130	814,390		50,308	38,224			210,459	18,229	27,494
0021	Instructional Leadership		53,785		66,428								
0031	Guidance, Counseling & Evaluation Svcs.				6,552								
0035	Food Services								246,327				
0051	Facilities Maintenance and Operations	16,857	14,427	1,100	39,666	27,891	953	460	2,135		7,580	2,863	
0053	Data Processing Services												
0061	Community Services												
0062	School District Administrative Support	426,358	148,728		28,206	342,419			114,502			21,047	
0093	Payments to Fiscal Agents/Members												
6030	Total Expenditures	\$ 443,215	\$ 439,027	\$ 126,230	\$ 967,770	\$ 370,310	\$ 51,261	\$ 38,684	\$ 116,637	\$ 246,327	\$ 218,039	\$ 114,452	\$ 27,494
1100	EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
1200	Net Change in Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0100	Beginning Fund Balance - September 1, 2013	0	0	0	0	0	0	0	0	0	0	0	0
3000	Ending Fund Balance - August 31, 2014	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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REGION 16 EDUCATION SERVICE CENTER

Exhibit H-2  
(Concluded)

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014**

Data Control Codes	295 SSA-Vento Homeless TEXSHEP 84.196A	301 SSA-T-III, Part C Migrant 84.011A	309 SSA-Adult Education & Literacy 84.002A	312 SSA-TANF Family Assistance 93.558	331 SSA-Carl D. Perkins Basic 84.048A	350 SSA-T-III, Part A ELA 84.365A	385 Visually Impaired ESC SSVI	431 State Adult Education & Literacy	Other State and Local Funds	481 NCLB Parental Involvement	482 P-16 Council	Total 2014
<b>REVENUES</b>												
5700 Local Revenue	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
5800 State Revenue				24,976			143,129	102,733	116,849			263,102
5900 Federal Program Revenue	30,070	1,173,409	462,767	20,512	78,564	276,293						387,687
5020 Total Revenues	<u>\$ 30,070</u>	<u>\$ 1,173,409</u>	<u>\$ 462,767</u>	<u>\$ 45,488</u>	<u>\$ 78,564</u>	<u>\$ 276,293</u>	<u>\$ 143,129</u>	<u>\$ 102,733</u>	<u>\$ 177,701</u>	<u>\$ 171,674</u>	<u>\$ 30,576</u>	<u>\$ 5,851,850</u>
<b>EXPENDITURES</b>												
0011 Instruction	\$	\$ 70,717	\$ 233,476	\$ 34,132	\$	\$	\$ 88,519	\$ 48,699	\$	\$	\$	\$ 560,384
0013 Curriculum & Instructional Staff Dev.		59,077	121,708	3,625	24,276	272,077	51,135	22,698	100,484	152,339		2,313,740
0021 Instructional Leadership				4,444				23,138				147,795
0031 Guidance, Counseling & Evaluation Svcs.			10,442				404					17,398
0035 Food Services												246,327
0051 Facilities Maintenance and Operations	375	12,688	72,062	413		4,216	3,071	1,860	2,366		987	211,970
0053 Data Processing Services									25,559			25,559
0061 Community Services		22,625										22,625
0062 School District Administrative Support	21,195	474,014	25,079	2,874				6,338	49,292		28,359	1,688,411
0093 Payments to Fiscal Agents/Members	8,500	534,288			54,288							597,076
6030 Total Expenditures	<u>\$ 30,070</u>	<u>\$ 1,173,409</u>	<u>\$ 462,767</u>	<u>\$ 45,488</u>	<u>\$ 78,564</u>	<u>\$ 276,293</u>	<u>\$ 143,129</u>	<u>\$ 102,733</u>	<u>\$ 177,701</u>	<u>\$ 152,339</u>	<u>\$ 29,346</u>	<u>\$ 5,831,285</u>
1100 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,335	\$ 1,230	\$ 20,565
1200 Net Change in Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19,335	\$ 1,230	\$ 20,565
0100 Beginning Fund Balance - September 1, 2013	0	0	0	0	0	0	0	0	0	361,436	35,371	396,807
3000 Ending Fund Balance - August 31, 2014	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 380,771</u>	<u>\$ 36,601</u>	<u>\$ 417,372</u>

REGION 16 EDUCATION SERVICE CENTER

Exhibit H-3

COMBINING STATEMENT OF NET POSITION  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014

	Proprietary Fund Type			
	Internal Service Funds			Totals
	750	752	754	
Plant	Print Shop	Computer Operations		
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 184,057	\$ 90,800	\$	\$ 274,857
Other Receivables	240	17,141		17,381
Due from Other Funds	356,542			356,542
Inventories		68,975	23,130	92,105
Prepayments			21,619	21,619
Furniture and Equipment, Net	34,230	11,110	378,572	423,912
Total Assets	\$ 575,069	\$ 188,026	\$ 423,321	\$ 1,186,416
<b>LIABILITIES:</b>				
Accounts Payable	\$ 4,880	\$ 11,529	\$ 154	\$ 16,563
Due to Other Funds			356,542	356,542
Unearned Revenues	42,045			42,045
Total Liabilities	\$ 46,925	\$ 11,529	\$ 356,696	\$ 415,150
<b>NET POSITION:</b>				
Net Investment in Capital Assets	\$ 34,230	\$ 11,110	\$ 378,572	\$ 423,912
Unrestricted Net Position	493,914	165,387	(311,947)	347,354
Total Net Position	\$ 528,144	\$ 176,497	\$ 66,625	\$ 771,266

REGION 16 EDUCATION SERVICE CENTER

Exhibit H-4

COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014

	Proprietary Fund Type			
	Internal Service Funds			
	750	752	754	
	Plant	Print Shop	Computer Operations	Totals
REVENUES				
Operating Revenues and Charges for Services	\$ <u>1,104,133</u>	\$ <u>243,699</u>	\$ <u>674,305</u>	\$ <u>2,022,137</u>
OPERATING EXPENSES				
Payroll Costs	\$ 369,231	\$ 63,473	\$ 345,855	\$ 778,559
Professional and Contracted Services	533,022	165,539	194,724	893,285
Supplies and Materials	94,208	60,299	24,321	178,828
Other Operating Expense	48,693	299	3,772	52,764
Depreciation	<u>15,374</u>	<u>585</u>	<u>88,231</u>	<u>104,190</u>
Total Operating Expenses	\$ <u>1,060,528</u>	\$ <u>290,195</u>	\$ <u>656,903</u>	\$ <u>2,007,626</u>
Change in Net Position	\$ <u>43,605</u>	\$ <u>(46,496)</u>	\$ <u>17,402</u>	\$ <u>14,511</u>
Beginning Net Position - September 1, 2013	\$ <u>484,539</u>	\$ <u>222,993</u>	\$ <u>49,223</u>	\$ <u>756,755</u>
Ending Net Position - August 31, 2014	\$ <u><u>528,144</u></u>	\$ <u><u>176,497</u></u>	\$ <u><u>66,625</u></u>	\$ <u><u>771,266</u></u>

## REGION 16 EDUCATION SERVICE CENTER

Exhibit H-5

**COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014**

	Proprietary Fund Type			Totals
	Internal Services			
	750 Plant	752 Print Shop	754 Computer Operations	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Charges to Users	\$ 8,212	\$ 15,493	\$ 7,958	\$ 31,663
Assessments to Other Funds	739,780	228,704	662,666	1,631,150
Payments to Employees for Services	(369,231)	(63,473)	(345,855)	(778,559)
Payments for Contracted Services	(533,022)	(165,539)	(192,501)	(891,062)
Payments to Suppliers	(141,500)	(38,452)	(28,123)	(208,075)
Payments for Other Operating Expenses	(28,582)	(299)	(3,772)	(32,653)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (324,343)</u>	<u>\$ (23,566)</u>	<u>\$ 100,373</u>	<u>\$ (247,536)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net Acquisition of Capital Assets	<u>\$ (19,073)</u>	<u>\$ (11,694)</u>	<u>\$ (100,373)</u>	<u>\$ (131,140)</u>
Net Cash Provided by (Used in) Investing Activities	<u>\$ (19,073)</u>	<u>\$ (11,694)</u>	<u>\$ (100,373)</u>	<u>\$ (131,140)</u>
NET INCREASE (DECREASE) IN CASH	\$ (343,416)	\$ (35,260)	\$ 0	\$ (378,676)
CASH - BEGINNING OF PERIOD	<u>527,473</u>	<u>126,060</u>	<u>0</u>	<u>653,533</u>
CASH - END OF PERIOD	<u><u>\$ 184,057</u></u>	<u><u>\$ 90,800</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 274,857</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating Income	\$ 43,605	\$ (46,496)	\$ 17,402	\$ 14,511
Changes in Assets and Liabilities				
Change in Other Receivables	401	498		899
Change in Inventories		20,901	(2,480)	18,421
Change in Prepaid Expenses			2,223	2,223
Change in Accounts Payable	(47,292)	946	(1,322)	(47,668)
Change in Due to/from Other Funds	(356,542)		(3,681)	(360,223)
Change in Unearned Revenues	20,111			20,111
Depreciation	<u>15,374</u>	<u>585</u>	<u>88,231</u>	<u>104,190</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (324,343)</u></u>	<u><u>\$ (23,566)</u></u>	<u><u>\$ 100,373</u></u>	<u><u>\$ (247,536)</u></u>

**OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**Independent Auditor's Report**

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

Board of Directors  
Region 16 Education Service Center  
Amarillo, 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 16 Education Service Center (the Center) as of and for the year ended August 31, 2014, and related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 5, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Region 16 Education Service Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

*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 over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Region 16 Education Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

Lubbock, Texas

January 5, 2015

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

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

Board of Directors  
Region 16 Education Service Center  
Amarillo, Texas

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

We have audited Region 16 Education Service Center's 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, 2014. Region 16 Education Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Region 16 Education Service Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Region 16 Education Service Center's compliance.

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

In our opinion, Region 16 Education Service Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended August 31, 2014.

## Report on Internal Control Over Compliance

Management of Region 16 Education Service Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

January 5, 2015

**FEDERAL FINANCIAL ASSISTANCE SECTION**

REGION 16 EDUCATION SERVICE CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED AUGUST 31, 2014

A. Section I - Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued Unqualified
Internal control over financial reporting
Material weakness(es) identified?
Significant deficiencies identified that are not considered to be material weaknesses?
Noncompliance material to financial statements noted?

2. Federal Awards

Internal control over major programs:
Material weakness(es) identified?
Significant deficiency identified that are not considered to be material weaknesses?
Type of auditor's report issued on compliance for major programs Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

Identification of major programs:

Table with 2 columns: CFDA Number(s) and Name of Federal Program or Cluster. Row 1: 93.600, Head Start

Dollar threshold used to distinguish between type A and type B programs: \$ 532,000

Total Federal Awards of \$21,872,330 less the Center's Head Start funds included in the SSA of \$4,136,770 equals \$17,735,560 times 3% equals \$532,067 threshold.

Auditee qualified as low-risk auditee? x yes no

B. Section II - Findings Related to the Financial Statements

None Noted

C. Section III - Findings and Questioned Costs Related to the Federal Awards

None Noted

**REGION 16 EDUCATION SERVICE CENTER**

**SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2014**

Prior Year's Finding/Noncompliance

N/A

Status of Prior Year's Finding/Noncompliance

N/A

REGION 16 EDUCATION SERVICE CENTER

Exhibit K-1  
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2014

Pass-Through Entity Identifying Number	Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Texas Education Agency</i>			
136101087120002	ESEA Title I, Part A - Special Project	84.010A	\$ 204,586
14610108188950	ESEA Title I, Part A - Special Project	84.010A	222,534
14610102188950	ESEA Title I, Part A - Technical Assistance	84.010A	25,239
	Total CFDA 84.010A		\$ 452,359
1361500271216	ESEA Title I, Part C - Migratory Children	84.011A	\$ 300,499
1461500271116	ESEA Title I, Part C - Migratory Children	84.011A	170,020
13615001188950	SSA - ESEA Title I, Part C - Migratory Children	84.011A	24,656
14615001188950	SSA - ESEA Title I, Part C - Migratory Children	84.011A	1,194,499
	Total CFDA 84.011A		\$ 1,689,674
Contract #3151	Title I, Priority & Focus Schools	84.377	\$ 22,793
1366002271116	* IDEA, Part B - Discretionary	84.027A	\$ 91,309
1466002271116	* IDEA, Part B - Discretionary	84.027A	942,262
	Total CFDA 84.027A		\$ 1,033,571
136610227110017	* IDEA, Part B - Preschool	84.173A	5,083
1466102271116	* IDEA, Part B - Preschool	84.173A	130,221
	Total CFDA 84.173A		\$ 135,304
1442001071116	Career and Technical - Educational Support	84.048A	\$ 25,222
1542001071116	Career and Technical - Educational Support	84.048A	6,191
1442001171116	Career and Technical - PBM	84.048A	7,812
1542001171116	Career and Technical - PBM	84.048A	1,382
1442000971116	Career and Technical - Leadership	84.048A	8,408
1542000971116	Career and Technical - Leadership	84.048A	26
1442001271116	Career and Technical - Non-Traditional	84.048A	5,250
1542001271116	Career and Technical - Non-Traditional	84.048A	695
14420006188950	SSA - Carl D. Perkins - Basic Grant	84.048A	80,322
	Total CFDA 84.048A		\$ 135,308
1367100271216	English Language Acquisition Grants Title III ELA (263)	84.365A	\$ 7,356
1467100271116	English Language Acquisition Grants Title III ELA (263)	84.365A	31,472
13671001188950	SSA - English Language Acquisition Grants Title III ELA (350)	84.365A	8,454
14671001188950	SSA - English Language Acquisition Grants Title III ELA (350)	84.365A	273,365
	Total CFDA 84.365A		\$ 320,647
136000117120010	NCLB Support (289)	84.999	\$ 288
146000117120022	NCLB Support (289)	84.999	124,578
	Total CFDA 84.999		\$ 124,866
136460547110016	ESC Texas Literacy Initiative	84.371C	\$ 16,137
146460547110016	ESC Texas Literacy Initiative	84.371C	12,990
			\$ 29,127
0114ABE000	SSA - Adult Education (ABE)	84.002A	\$ 485,905
	Total Passed Through Texas Education Agency		\$ 4,429,554
<i>Passed Through University of Texas in Austin</i>			
UTA13-000334	Regional Collaborative - Excellence in Science	84.366B	\$ 95,334
UTA14-000383	Regional Collaborative - Excellence in Science	84.366B	25,036
UTA13-000357	Regional Collaborative - Excellence in Math	84.366B	78,299
UTA14-000406	Regional Collaborative - Excellence in Math	84.366B	32,229
	Total CFDA 84.366B		\$ 230,898
	Total Passed Through University of Texas in Austin		\$ 230,898

## REGION 16 EDUCATION SERVICE CENTER

Exhibit K-1  
(Concluded)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2014

Pass-Through Entity Identifying Number	Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>Passed Through Texas Department of Assistance and Rehab Services</u>			
5382001570-01	IDEA - Part B, Discretionary	84.027	\$ 62,280
5382001570-01	Special Education for Infants & Families with Disabilities	84.181	\$ 476,177
	Total Passed Through Texas Department of Assistance and Rehab Services		\$ 538,457
<u>Passed Through Texas Region 10 Education Service Center</u>			
14-055	SSA - ESEA Title III, Part C - Education for Homeless	84.196A	\$ 31,617
	Total Passed Through Texas Region 10 Education Service Center		\$ 31,617
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 5,230,526
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Direct Programs</u>			
06CH0219/29	Head Start	93.600	\$ 33,772
06CH0219/30	Head Start	93.600	3,883,327
06CH0219/31	Head Start	93.600	512,399
06CH0219/29	SSA - Head Start	93.600	34,565
06CH0219/30	SSA - Head Start	93.600	9,987,700
06CH0219/31	SSA - Head Start	93.600	1,215,722
	Total CFDA 93.600		\$ 15,667,485
	Total Direct Programs		\$ 15,667,485
<u>Passed Through Texas Education Agency</u>			
0114ABE000	SSA - Temporary Assistance for Needy Families	93.558	\$ 21,538
	Total Passed Through Texas Education Agency		\$ 21,538
<u>Passed Through Texas Department of Assistance and Rehab Services</u>			
5382001570-01	Temporary Assistance for Needy Families	93.558	\$ 186,927
	Total Passed Through Texas Department of Assistance and Rehab Services		\$ 186,927
<u>Passed Through Coalition of Health Services</u>			
529-12-0029-00002	Texas Home Visiting Program	93.505	\$ 122,666
	Total Passed Through Coalition of Health Services		\$ 122,666
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 15,998,616
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through Texas Education Agency</u>			
CACFP 03117	Child and Adult Care Food Program	10.558	\$ 246,327
1371700351016	Child Nutrition	10.560	20,236
1471700351016	Child Nutrition	10.560	376,626
	Total CFDA 10.560		\$ 396,862
	Total Passed Through Texas Education Agency		\$ 643,189
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 643,189
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 21,872,331



**REGION 16 EDUCATION SERVICE CENTER**

**NOTES TO THE SUPPLEMENTARY SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2014**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Region 16 Education Service Center and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.