

# Region 5 Education Service Center

## Annual Financial Report

For the Fiscal Year Ended August 31, 2020

### **Board Members**

Mr. Earl Jeffery, Chairman  
Mr. Jimmy Hicks, Vice Chairman  
Ms. Debbie Nicks, Secretary  
Mr. Donald Foster  
Ms. Wanda Woods  
Ms. Kristi Hughes  
Mr. Robert Madding  
Ms. Cary Coffin, charter schools

### **Executive Director**

Dr. Danny Lovett

### **Deputy Executive Director**

Dr. Byron Terrier

### **Chief Financial Officer**

Ms. Denise Wallace

*"Educational Professionals serving Educational Professionals"*

**Region 5 Education Service Center**  
Annual Financial Report  
For the Fiscal Year Ended August 31, 2020  
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## Certificate of the Board

**Region 5 Education Service Center**

Name of Region Center

**Jefferson**

County

**181-950**

Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named region center were reviewed and ✓ approved        disapproved for the fiscal year ended August 31, 2020 at a meeting of the Board of Directors of such region center on the 17<sup>th</sup> day of December, 2020.

  
\_\_\_\_\_  
Signature of Board Member

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

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

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## **Financial Section**

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## Independent Auditor's Report

To the Board of Trustees of  
Region 5 Education Service Center  
Beaumont, 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 5 Education Service Center (the Center), as of and for the fiscal year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *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 5 Education Service Center, as of August 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.  
1406 Wilson Road, Suite 100 / Conroe, Texas 77304  
Main: 936.756.8127



***Emphasis of Matter***

As discussed in Note 4.G. to the basic financial statements, the Center restated the beginning net position of governmental activities and beginning fund balance of the special revenue fund to correct misstatements in its previously issued 2019 financial statements. Our opinions are not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

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

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The Supplementary Information and Schedule of Required Responses to Selected School FIRST Indicators, as listed in the table of contents, 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, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Required Responses to Selected School FIRST Indicators (Other Information) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

The Board of Trustees of  
Region 5 Education Service Center

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
December 14, 2020

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## Management's Discussion and Analysis

As management of the Region 5 Education Service Center (the Center), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the Center for the fiscal year ended August 31, 2020. In reviewing this report, readers should be mindful that it is often necessary for management to make and use estimates in the preparation of financial statements. Examples of the use of such estimates may be found in amounts reported for depreciation, net pension liability and net OPEB liability.

### Financial Highlights

Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources at year-end by \$3,068,166 (deficit net position). The Center does not have an unrestricted net position that may be used to meet the Center's ongoing obligations to its creditors.

- The Center's total net position decreased by \$630,814 from current operations.
- As of the close of the current fiscal year, the Center's governmental funds had combined ending fund balances of \$5,166,621, an increase of \$452,469 from current operations.
- At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,758,426, or 46 percent of the year's total general fund expenditures.
- The Center's total government-wide long-term pension liability decreased by \$692,286, or 16 percent, and long-term OPEB liability decreased by \$1,005,801, or 17 percent, during the year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements. The Center's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information and supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Center's finances, in a manner similar to a private-sector enterprise.

The *Statement of Net Position* (Exhibit A-1) presents information on all of the Center's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The *Statement of Activities* (Exhibit B-1) presents information showing how the Center's net position changed during the most recent fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some transactions that will not result in cash flows until future fiscal periods (e.g. pension and OPEB benefits).

The government-wide financial operations (*governmental activities*) of the Center are principally supported by charges for services and intergovernmental revenues. The governmental activities of the Center include *Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, School Leadership, General Administration, Plant Maintenance and Operations, Data Processing Services, School District Administrative Support Services and Payments Related to Shared Service Arrangements*, as applicable.

The government-wide financial statements can be found as noted in the table of contents of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Center, as do other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Center can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of cash resources*, as well as on *balances of cash resources* available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of governmental funds financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the Center's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Center maintained two individual governmental funds during the year. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and special revenue fund, which are considered to be major funds. The Center did not report any nonmajor governmental funds.

The Center adopts an annual revenue and appropriations budget for its general fund. The special revenue fund adopts a project length budget. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget column. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The basic governmental fund financial statements are noted in the table of contents of this report.

**Proprietary Fund.** The Center's proprietary fund consists of one internal service fund. The *internal service fund* is an accounting device used to accumulate and allocate costs internally among the Center's various functions. The Center uses an internal service fund to account for its building operations, vehicle operations and data processing services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide essentially the same type of information as the government-wide financial statements, only in more detail. The internal service fund is combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements are noted in the table of contents of this report.

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements are noted in the table of contents of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report presents required supplementary information and supplementary and other information. Such information is noted in the table of contents of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a Center's financial position. In the case of the Center, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$3,068,166 at the close of the most recent fiscal year.

### Region 5 Education Service Center's Net Position

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 5,434,861	90	\$ 4,867,599	85	\$ 567,262	12
Capital assets, net of depreciation	605,194	10	877,145	15	(271,951)	(31)
Total assets	6,040,055	100	5,744,744	100	295,311	
Total deferred outflows of resources	3,923,896	100	4,679,993	100	(756,097)	(16)
Other liabilities	208,691	2	316,075	3	(107,384)	(34)
Long-term liabilities outstanding	8,994,787	98	10,646,477	97	(1,651,690)	(16)
Total liabilities	9,203,478	100	10,962,552	100	(1,759,074)	
Total deferred inflows of resources	3,828,639	100	2,125,514	100	1,703,125	80
Net position (deficit):						
Net investment in capital assets	605,194	(20)	852,469	(32)	(247,275)	(29)
Restricted	909,816	(30)	568,495	(21)	341,321	60
Unrestricted (deficit)	(4,583,176)	149	(4,084,293)	153	(498,883)	12
<b>Total net position (deficit)</b>	<b>\$ (3,068,166)</b>	<b>100</b>	<b>\$ (2,663,329)</b>	<b>100</b>	<b>\$ (404,837)</b>	

Net investment in capital assets (e.g., building leasehold improvements and furniture and equipment less any related debt used to acquire those assets that is still outstanding) represents 20 percent of the Center's net position. The Center uses these capital assets to provide services to districts; consequently, these assets are *not* available for future spending. Although the Center's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position \$909,816 or 30 percent of net position is restricted for grants.

The Center does not have an unrestricted net position to meet the ongoing obligations to creditors, as it is in a deficit of \$4,583,176. At the end of the current fiscal year, the Center reported a deficit unrestricted net position as a result of the obligations related to net pension and OPEB liabilities.

**Governmental Activities.** Governmental activities decreased the Center's net position by \$630,814 from current operations, and increased \$225,977 from a prior period adjustment. The elements giving rise to the change may be determined from the table below.

**Region 5 Education Service Center's Changes In Net Position**

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	\$ 6,467,498	46	\$ 6,732,390	43	\$ (264,892)	(4)
Operating grants and contributions	6,940,048	50	8,527,423	54	(1,587,375)	(19)
General revenues:						
Grants and contributions not restricted to specific programs	538,567	4	531,371	3	7,196	1
Investment earnings	41,751	-	77,784	-	(36,033)	(46)
Total revenues	13,987,864	100	15,868,968	100	(1,881,104)	
Expenses:						
Instruction	1,057,938	7	1,017,775	6	40,163	4
Instructional resources and media services	6,925	-	24,351	-	(17,426)	(72)
Curriculum and instructional staff development	7,955,045	54	9,606,218	59	(1,651,173)	(17)
School leadership	41,427	-	40,177	-	1,250	3
General administration	970,850	7	957,278	6	13,572	1
Plant maintenance and operations	1,157,766	8	1,056,201	7	101,565	10
Data processing services	2,281,643	16	2,258,409	14	23,234	1
School district administrative support services	1,124,268	8	1,071,955	7	52,313	5
Payments related to shared service arrangements	22,816	-	124,559	1	(101,743)	(82)
Total expenses	14,618,678	100	16,156,923	100	(1,538,245)	
Change in net position	(630,814)		(287,955)		(342,859)	
Net position - beginning	(2,663,329)		(2,375,374)		(287,955)	
Prior period adjustment - Note 4.G.	225,977		-		225,977	
Net position - beginning, as restated	(2,437,352)		(2,375,374)		(61,978)	
<b>Net position - ending</b>	<b>\$ (3,068,166)</b>		<b>\$ (2,663,329)</b>		<b>\$ (404,837)</b>	

Revenues, aggregating \$13,987,864, were generated primarily from two sources. Charges for services \$6,467,498 represent 46 percent of total revenues, while grants and contributions (including those not restricted for program-specific use as well as for general operations) totaling \$7,478,615, represent 54 percent of total revenues. The remaining investment earnings were less than one percent. The most significant change in revenues was a decrease in operating grants and contributions of \$1,587,375, primarily resulting from nonrecurring donations received in prior year for local project Rebuild Texas.

The primary functional expenses of the Center are *Curriculum and instructional staff development* \$7,955,045, which represents 54 percent of total expenses, and *Data Processing Services* \$2,281,643, which represents 16 percent of total expenses. All remaining expense categories are individually 10 percent or less of total expenses. The most significant change in expenses was the change in expenses related to reduction of funds flowed through to District's relative to curriculum and instructional staff development.

## Financial Analysis of the Government's Funds

As mentioned earlier, the Center uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** At the end of the fiscal year, the Center's governmental funds had combined ending fund balances of \$5,166,621, an increase of \$452,469 from the preceding year due to current operations and an increase of \$225,977 from a prior period adjustment. Comments as to each individual major fund's change in fund balance follows.

The general fund is the primary operating fund of the Center. At year-end, unassigned fund balance of the general fund was \$2,758,426, while total fund balance was \$4,246,693. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 46 percent of total general fund expenditures, while total fund balance represents 71 percent of that same total. The fund balance of the general fund increased \$335,099 during the year, and there were no significant changes from the prior year.

The special revenue fund was created to segregate and control funds received for specifically-designated purposes, the source most often being grants, which must be spent or else returned to the grantor. Total revenues for the special revenue fund in 2019-20 were \$7,070,689. Fund balance at year-end for the special revenue fund was \$919,928. The most significant change was the decrease in curriculum and instructional staff development as a result of a decrease in funds flowed through to District's for such activities.

Governmental funds financial statements may be found by referring to the table of contents.

**Proprietary Fund.** The Center's proprietary fund consists of an internal service fund which is combined with governmental activities in the government-wide financial statements. The additional statements for the internal service fund provides more detail about the internal services provided. The net change in assets of the fund is eliminated and allocated to the governmental expenses in the government-wide financial statements.

The Center's internal service fund accounts for the building operations, vehicle operations, and data processing services and provide information as to profitability of these activities.

### General Fund Budgetary Highlights

The Center amends the budget as needed throughout the year. There were no significant differences between the original budget and the final amended budget of the general fund.

The most significant variation between final budget and actual results was the decrease in local revenues resulting from reduction of services due to COVID-19.



## Capital Assets and Long-term Liabilities

**Capital Assets.** The Center's investment in capital assets for its governmental activities as of August 31, 2020, amounts to \$605,194 (net of accumulated depreciation). This investment in capital assets includes building leasehold improvements and furniture and equipment. The decrease in net investment in capital assets for the current fiscal year was \$271,951, primarily due to depreciation.

### Region 5 Education Service Center's Capital Assets (net of depreciation)

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Building leasehold improvements	\$ 261,816	43	\$ 374,022	43	\$ (112,206)	(30)
Furniture and equipment	343,378	57	503,123	57	(159,745)	(32)
<b>Totals</b>	<b>\$ 605,194</b>	<b>100</b>	<b>\$ 877,145</b>	<b>100</b>	<b>\$ (271,951)</b>	

There was no significant capital asset activity in the current year.

Additional information on the Center's capital assets can be found in Note 3.D in the notes to the basic financial statements as noted in the table of contents.

**Long-term Liabilities.** At year-end, the Center had the following long-term liabilities:

### Region 5 Education Service Center's Long-term Liabilities Outstanding

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Notes payable	\$ -	-	\$ 24,676	-	\$ (24,676)	(100)
Compensated absences	355,162	4	284,089	3	71,073	25
Net pension liability	3,681,571	41	4,373,857	41	(692,286)	(16)
Net OPEB liability	4,958,054	55	5,963,855	56	(1,005,801)	(17)
<b>Totals</b>	<b>\$ 8,994,787</b>	<b>100</b>	<b>\$ 10,646,477</b>	<b>100</b>	<b>\$ (1,651,690)</b>	

The Center's total long-term liabilities decreased by \$1,651,690 during the current fiscal year primarily due to changes seen in the net pension and OPEB liabilities.

Additional information on the Center's long-term liabilities can be found in Note 3.E in the notes to the financial statements as noted in the table of contents.

Additional information on the Center's pension liability and OPEB liability can be found in Note 4.C. and Note 4.D., respectively to the financial statements as indicated in the table of contents of this report.

## **Next Year's Budget**

The Center's general fund budget for 2020-21 was adopted in August 2020, with amounts available for appropriation in the amount of \$7,216,820, a decrease of less than 1% from the final 2019-20 budget of \$7,241,911. Estimated revenue will be funded from 84% local sources, 12% from state sources, and 4% from federal sources. Total estimated expenditures for the 2020-21 general fund budget was approved at \$7,040,320, an increase from the final 2019-20 budget by 7%. The largest amount of the expenditure budget will be expended on curriculum and instructional staff development, data processing, general administration and school district administrative support for its clients. These amounts make-up approximately 82% of the total expenditure budget.

## **Requests for Information**

This financial report is intended to provide a general overview of the Center's finances for those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Region 5 Education Service Center, 350 Pine Street, Suite 500, Beaumont, Texas 77701.

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## **Basic Financial Statements**

# Region 5 Education Service Center

## Statement of Net Position

August 31, 2020

# Exhibit A-1

1

<b>Data Control Codes</b>		<b>Primary Government Governmental Activities</b>
<b>ASSETS</b>		
1110	Cash and cash equivalents	\$ 4,516,280
1240	Due from other governments	616,121
1290	Other receivables	219,440
1410	Prepaid items	83,020
	Capital assets, net of accumulated depreciated:	
1520	Building leasehold improvements	261,816
1530	Furniture and equipment	343,378
1000	Total assets	6,040,055
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
1705	Deferred outflows - pension	2,350,123
1706	Deferred outflows - OPEB	1,573,773
1700	Total deferred outflows of resources	3,923,896
<b>LIABILITIES</b>		
2150	Payroll deductions and withholdings	81,511
2160	Accrued wages payable	24,803
2180	Due to other governments	6,934
2200	Accrued liabilities	33,873
2300	Unearned revenue	61,570
	Noncurrent liabilities:	
2501	Due within one year	355,162
2540	Net pension liabilities	3,681,571
2545	Net OPEB liabilities	4,958,054
2000	Total liabilities	9,203,478
<b>DEFERRED INFLOWS OF RESOURCES</b>		
2605	Deferred inflows - pension	875,614
2606	Deferred inflows - OPEB	2,953,025
2600	Total deferred inflows of resources	3,828,639
<b>NET POSITION (DEFICIT)</b>		
3200	Net investment in capital assets	605,194
3820	Restricted for grants	909,816
3900	Unrestricted (deficit)	(4,583,176)
3000	<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (3,068,166)</b>

The Notes to the Financial Statements are an integral part of this statement.

Region 5 Education Service Center  
Statement of Activities  
For the Fiscal Year Ended August 31, 2020

Exhibit B-1

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	<b>PRIMARY GOVERNMENT</b>				
	Governmental activities:				
0011	Instruction	\$ 1,057,938	\$ 894,174	\$ 168,837	\$ 5,073
0012	Instructional resources and media services	6,925	-	-	(6,925)
0013	Curriculum and instructional staff development	7,955,045	1,410,519	5,690,857	(853,669)
0023	School leadership	41,427	46,418	-	4,991
0041	General administration	970,850	856,659	398,773	284,582
0051	Plant maintenance and operations	1,157,766	510,230	295,326	(352,210)
0053	Data processing services	2,281,643	1,806,392	290,766	(184,485)
0062	School district administrative support services	1,124,268	943,106	72,673	(108,489)
0093	Payments related to shared services arrangements	22,816	-	22,816	-
TG	Total governmental activities	14,618,678	6,467,498	6,940,048	(1,211,132)
TP	<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 14,618,678</u>	<u>\$ 6,467,498</u>	<u>\$ 6,940,048</u>	(1,211,132)
	General revenues:				
GC	Grants and contributions not restricted to specific programs				538,567
IE	Investment earnings				41,751
TR	Total general revenues				580,318
CN	Change in net position				(630,814)
NB	Net position - beginning (deficit)				(2,663,329)
PA	Prior period adjustment - Note 4.G.				225,977
	Net position - beginning, as restated				(2,437,352)
NE	<b>NET POSITION - ENDING (DEFICIT)</b>				<u>\$ (3,068,166)</u>

The Notes to the Financial Statements are an integral part of this statement.

**Region 5 Education Service Center**  
Balance Sheet – Governmental Funds  
August 31, 2020

**Exhibit C-1**

Data Control Codes		199	Special Revenue Fund	98 Total Governmental Funds
		General Fund		
ASSETS				
1110	Cash and cash equivalents	\$ 3,621,243	\$ 895,037	\$ 4,516,280
1240	Due from other governments	27,296	588,825	616,121
1260	Due from other funds	581,455	-	581,455
1290	Other receivables	195,901	21,439	217,340
1410	Prepaid items	8,267	10,112	18,379
1000	Total assets	4,434,162	1,515,413	5,949,575
TOTAL ASSETS AND DEFERRED				
1000a	OUTFLOWS OF RESOURCES	\$ 4,434,162	\$ 1,515,413	\$ 5,949,575
LIABILITIES				
2150	Payroll deductions and withholdings	\$ 81,511	\$ -	\$ 81,511
2160	Accrued wages payable	5,019	18,994	24,013
2170	Due to other funds	-	576,491	576,491
2180	Due to other governments	6,934	-	6,934
2200	Accrued liabilities	32,435	-	32,435
2300	Unearned revenue	61,570	-	61,570
2000	Total liabilities	187,469	595,485	782,954
FUND BALANCES				
3430	Nonspendable - prepaid items	8,267	10,112	18,379
3450	Restricted - grants	-	909,816	909,816
3530	Committed - capital expenditures for equipment	375,000	-	375,000
3545	Committed - other	290,000	-	290,000
3590	Assigned - other	815,000	-	815,000
3600	Unassigned	2,758,426	-	2,758,426
3000	Total fund balances	4,246,693	919,928	5,166,621
TOTAL LIABILITIES, DEFERRED INFLOWS				
4000	OF RESOURCES, AND FUND BALANCE	\$ 4,434,162	\$ 1,515,413	\$ 5,949,575

The Notes to the Financial Statements are an integral part of this statement.

**Region 5 Education Service Center****Exhibit C-1R**

Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
August 31, 2020

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)** \$ 5,166,621

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs, excluding internal service funds	\$ 1,298,927	
Accumulated depreciation of governmental capital assets, excluding internal service funds	(1,033,652)	265,275

Long-term liabilities, including compensated absences and net pension and OPEB liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

Compensated absences	\$ (355,162)	
Net pension liability	(3,681,571)	
Net OPEB liability	(4,958,054)	(8,994,787)

An internal service fund is used by the Center to charge the costs of various services to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 399,468

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. 2,350,123

Deferred inflows of resources for pension represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (875,614)

Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. 1,573,773

Deferred inflows of resources for OPEB represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (2,953,025)

**TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)** \$ (3,068,166)



**Region 5 Education Service Center**  
Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Governmental Funds  
For the Fiscal Year Ended August 31, 2020

**Exhibit C-2**

		199	98	
Data Control Codes		General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES				
5700	Local and intermediate revenues	\$ 5,419,973	\$ 1,175,806	\$ 6,595,779
5800	State program revenues	796,830	803,531	1,600,361
5900	Federal program revenues	308,742	5,091,352	5,400,094
5020	Total revenues	6,525,545	7,070,689	13,596,234
EXPENDITURES				
Current:				
0011	Instruction	607,942	451,002	1,058,944
0013	Curriculum and instructional staff development	1,594,852	5,120,969	6,715,821
0023	School leadership	-	40,782	40,782
0041	General administration	861,523	87,319	948,842
0051	Plant maintenance and operations	551,679	311,220	862,899
0053	Data processing services	1,300,883	865,134	2,166,017
0062	School district administrative support services	1,066,356	33,614	1,099,970
Intergovernmental:				
0093	Payments related to shared service arrangements	-	22,816	22,816
6030	Total expenditures	5,983,235	6,932,856	12,916,091
1100	Excess (deficiency) of revenues over (under) expenditures	542,310	137,833	680,143
OTHER FINANCING SOURCES (USES)				
8911	Transfers out	(207,211)	-	(207,211)
8949	Reimbursements to districts	-	(20,463)	(20,463)
7080	Total other financing sources (uses)	(207,211)	(20,463)	(227,674)
1200	Net change in fund balances	335,099	117,370	452,469
0100	Fund balances - beginning	3,911,594	576,581	4,488,175
3700	Prior period adjustment	-	225,977	225,977
0100	Fund balances - beginning, as restated	3,911,594	802,558	4,714,152
3000	FUND BALANCES - ENDING	\$ 4,246,693	\$ 919,928	\$ 5,166,621

The Notes to the Financial Statements are an integral part of this statement.

**Region 5 Education Service Center****Exhibit C-3**

Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended August 31, 2020

**TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2)** \$ 452,469

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. Amounts are net of change in the internal service fund.

Capital assets increased	\$ 31,357	
Depreciation expense	(91,594)	(60,237)

The (increase) decrease in compensated absences is reported in the statement of activities, but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (71,073)

The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ (721,508)	
Deferred inflows (increased) decreased	(636,014)	
Net pension liability (increased) decreased	692,286	(665,236)

The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ (34,589)	
Deferred inflows (increased) decreased	(1,067,111)	
Net OPEB liability (increased) decreased	1,005,801	(95,899)

An internal service fund is used by the Center to charge the costs of various services to the individual funds. The changes in net position of the internal service fund is included with governmental activities. (190,838)

**CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1)** \$ (630,814)

**Region 5 Education Service Center**

Statement of Net Position

Proprietary Fund

August 31, 2020

**Exhibit D-1**

750

<b>Data Control Codes</b>		<b>Internal Service Fund</b>
	<b>ASSETS</b>	
	Current assets:	
1290	Other receivables	\$ 2,100
1410	Prepaid items	64,641
	Total current assets	66,741
	Noncurrent assets:	
	Capital assets, net of accumulated depreciation:	
1520	Building leasehold improvements	1,122,067
1530	Furniture and equipment	961,142
1570	Accumulated depreciation	(1,743,290)
	Total noncurrent assets	339,919
1000	Total assets	406,660
	<b>LIABILITIES</b>	
	Current liabilities:	
2160	Accrued wages payable	790
2170	Due to other funds	4,964
2200	Accrued liabilities	1,438
2000	Total liabilities	7,192
	<b>NET POSITION</b>	
3200	Net investment in capital assets	339,919
3900	Unrestricted	59,549
3000	<b>TOTAL NET POSITION</b>	<b>\$ 399,468</b>

The Notes to the Financial Statements are an integral part of this statement.

**Region 5 Education Service Center**  
Statement of Revenues, Expenses, and Changes  
in Net Position - Proprietary Fund  
For the Fiscal Year Ended August 31, 2020

**Exhibit D-2**

<b>Data Control Codes</b>		<b>750 Internal Service Fund</b>
<b>OPERATING REVENUES</b>		
5700	Local and intermediate revenues	\$ 1,669,691
5800	State program revenues	22,288
5020	Total operating revenues	1,691,979
<b>OPERATING EXPENSES</b>		
6100	Payroll costs	329,696
6200	Professional and contracted services	1,276,566
6300	Supplies and materials	200,974
6400	Other operating costs	70,153
6499	Depreciation	211,714
6030	Total operating expenses	2,089,103
1100	Operating income (loss)	(397,124)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
6500	Interest expense	(925)
7080	Total nonoperating revenue (expenses)	(925)
	Income (loss) before transfers	(398,049)
7915	Transfers in	207,211
1200	Change in net position	(190,838)
0100	Net position - beginning	590,306
3000	<b>NET POSITION - ENDING</b>	<b>\$ 399,468</b>

The Notes to the Financial Statements are an integral part of this statement.

**Region 5 Education Service Center**  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended August 31, 2020

**Exhibit D-3**

750

**Internal  
Service Fund**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from interfund services	\$ 1,666,000
Payments to employees for services	(307,059)
Payments to suppliers for goods or services	(1,540,551)

Net cash used for operating activities (181,610)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Transfers in	207,211
--------------	---------

Net cash provided by noncapital financing activities 207,211

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Principal paid on long-term debt	(24,676)
Interest paid on long-term debt	(925)

Net cash used for capital and related financing activities (25,601)

Net increase (decrease) in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	-

**CASH AND CASH EQUIVALENTS AT END OF YEAR**

\$ -

**RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED FOR OPERATING ACTIVITIES**

Operating loss	\$ (397,124)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities	
Depreciation	211,714
Decrease in other receivables	700
Decrease in prepaid items	6,207
Increase in accrued wages payable	349
Decrease in due to other funds	(4,391)
Increase in accrued liabilities	935

**NET CASH USED FOR OPERATING ACTIVITIES** \$ (181,610)

The Notes to the Financial Statements are an integral part of this statement.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### Note 1. Summary of Significant Accounting Policies

##### A. Reporting Entity

The Region 5 Education Service Center (the Center) is governed by seven voting members and one non-voting member (the Board), which has governance responsibilities over all activities related to the services and operations of the Center. The non-voting member represents the open enrollment charter schools operating within the Center's boundaries. The Board is elected by the boards of school districts within the geographic boundaries of the Center and has the exclusive power and duty to govern and oversee the management of the Center. All powers and duties not specifically delegated by statute of the Texas Education Agency (TEA) or the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The Center is not included in any other governmental reporting entity. The accompanying financial statements present the Center.

##### B. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government (the Center). *Governmental activities* normally are supported by intergovernmental revenues.

##### C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

##### D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the Center's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Center reports the following major governmental funds:

The *general fund* is the Center's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* accounts for multiple federal, state and locally funded grants which provide training and related services for area school districts. These grants operate primarily on a cost reimbursement basis.

Additionally, the Center reports the following fund types:

The *internal service fund* accounts for building operations, vehicle operations and data processing services provided for other funds of the Center on a cost reimbursement basis.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

During the course of operations the Center has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated.

#### **E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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 Center considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, expenditures related to long-term liabilities such as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 120 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 120 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the Center.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

**Region 5 Education Service Center**  
Notes to the Basic Financial Statements

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**1. Cash and Cash Equivalents**

The Center's cash and cash equivalents are considered to be cash on hand, bank demand or time deposits with original maturities of three months or less from the date of acquisition, and investment pools.

**2. Investments**

Investments for the Center, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or fair value.

**3. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**4. Capital Assets**

Capital assets, which include building leasehold improvements and furniture and equipment, are reported in the governmental activities column in the government-wide financial statements and internal service fund. Capital assets are defined by the Center as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year.

In the case of the initial capitalization of capital assets (i.e., those reported by governmental activities), the Center chose to include all such items regardless of their acquisition date or amount. The Center was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the Center constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The building leasehold improvements and furniture and equipment of the Center are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Class</u>	<u>Lives</u>
Building leasehold improvements	10 years
Furniture and equipment	5-10 years



## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### **5. *Deferred Outflows/Inflows of Resources***

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB Plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- Center contributions to the pension and OPEB plans after the measurement date of each plan are recognized in the subsequent fiscal year.

#### **6. *Compensated Absences***

It is the Center's policy to permit employees to accumulate earned but unused vacation and leave benefits. The Center reports a liability in the government-wide financial statements for unpaid accumulated vacation and leave pay since it has a policy to pay certain amounts when qualified employees separate from service. Expenditures are reported in the fund level financial statements only when payment is due.

#### **7. *Pension***

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

#### **8. *Other Postemployment Benefits***

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

#### **9. *Net Position Policies***

Net position of governmental activities is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District classifies net position as follows:

*Net investment in capital assets* – the component of net position that reports capital assets, net of accumulated depreciation, and net of related debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

*Restricted* – the component of net position that is constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes federal and state grants.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

*Unrestricted* – the component of net position that includes the residual difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources that is not classified in the categories mentioned above.

#### **10. Net Position Flow Assumption**

Sometimes the Center will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Center's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### **11. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Center classifies governmental fund balances as follows:

*Non-spendable* – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid items.

*Restricted* – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes federal and state grants.

*Committed* – includes amounts that are constrained for specific purposes that are internally imposed by the Center through formal action of the Center's highest level of decision-making authority. The Board of Trustees (the Board) is the highest level of decision-making authority for the Center that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by Board action or the resolution remains in place until a similar action is taken (the Board action or adoption of another resolution) to remove or revise the limitation.

*Assigned* – includes fund balance amounts that are self-imposed by the Center to be used for specific purposes, but do not meet the criteria to be classified as non-spendable, restricted or committed. The Board has, by policy, authorized the Executive Director or his/her designee to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

*Unassigned* – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. The general fund should be the only fund that reports a positive unassigned fund balance. Unassigned fund balance may also include deficit balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The Center has established a minimum fund balance for the general fund. There shall be an amount of unassigned fund balance that is not less than a minimum of two months of general fund expenditures and not more than a maximum of six months of general fund expenditures for the most recent year ended.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### **12. Fund Balance Flow Assumptions**

Sometimes the Center will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Center's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### **G. Revenues and Expenditures/Expenses**

##### **1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants 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 or segment.

##### **2. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds are interfund services or activities related to building operations, vehicle operations, and data processing. Operating expenses for internal service funds include payroll costs, professional and contracted services, supplies and materials, other operating cost, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **H. Use of Estimates**

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

#### **I. Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by Texas Education Agency (TEA) in the *Financial Accountability System Resource Guide*. TEA requires Centers to display these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

## **Region 5 Education Service Center**

### Notes to the Basic Financial Statements

#### **Note 2. Stewardship, Compliance, and Accountability**

##### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The Center is not legally required to adopt an annual budget for the special revenue fund; therefore, a budget comparison schedule is not included in the Center's required supplementary information. All annual appropriations lapse at fiscal year-end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. 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.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and department. The Center's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Center's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund.

##### **B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

There were no encumbrances included in governmental fund balances at fiscal year end.

#### **Note 3. Detailed Notes on All Funds**

##### **A. Deposits and Investments**

###### **Cash Deposits**

The Center's funds are required to be deposited and invested under the terms of a depository contract. The depository bank provided a letter of credit from the Federal Home Loan Bank – Atlanta, a security to the Center for uninsured deposits. The letter of credit shall be in an amount sufficient to protect the Center's funds on a day-to-day basis during the period of the contract. The amount of the letter of credit is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### Investments

The Center's investment policy is in accordance with the Public Funds Investment Act (PFIA), the Public Funds Collateral Act, and federal and state laws. State law and Center policy limits credit risk by allowing investing in: 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011; 4) Securities lending program as permitted by Government Code 2256.0115; 5) Bankers acceptances as permitted by Government Code 2256.012; 6) Commercial paper if it has a stated maturity of 270 days or fewer from the day of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit ratings agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 7) No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.013; 8) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the PFIA; 9) Public funds investment pools which meet the requirements of the PFIA.

For fiscal year 2020, the Center invested in the Texas Local Government Investment Pool (TexPool). TexPool is duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Investors, Inc. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; and AAA rated money market mutual funds.

As of August 31, 2020, the Center had the following governmental fund's investments that are not subject to the fair value hierarchy and are reported as a cash equivalent:

	August 31, 2020	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured at amortized cost:				
Investment pools:				
TexPool	\$ 3,404,278	100%	32	AAAm*
<b>Total</b>	<b>\$ 3,404,278</b>	<b>100%</b>		
<b>Portfolio weighted average maturity</b>			32	

\*Standard & Poor's Rating

The TexPool investment pool is an external investment pool measured at amortized cost. TexPool transacts at a net asset value of \$1.00 per share, has a weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by a nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. The investment pool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### Credit Risk

At year-end, the Center's investment ratings are included in the preceding table. The credit risk for investments was acceptable per legal guidelines prescribed in both the PFIA and the Center's investment policy.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The Center monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the Center reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 180 days. In addition, the Center shall not directly invest in an individual security maturing more than one year from the date of purchase, unless specifically authorized by the board.

#### Concentration of Credit Risk

The Center's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer. TexPool meets the diversification requirements.

#### Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. As of August 31, 2020, the Center's depository bank's balances of \$1,334,747 were not exposed to custodial credit risk because such balances were insured and collateralized with letters of credit issued to the Center.

#### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Center policy requires investments to be in the Center's name or held by the Center's agent in the Center's name. The Center is not exposed to custodial risk due to the investments are in the Center's name or held by the Center's agent in the Center's name.

### B. Receivables

Other receivables as of August 31, 2020 for the governmental funds were \$217,340. This balance represents invoices to various school districts and other customers for services provided such as rent, workshop fees, co-op fees, technical assistance, and technology services. The Center's management estimate that the balance is fully collectible; therefore, no provision for bad debt has been recorded.

### C. Interfund Receivables, Payables, and Transfers

#### 1. Receivables/Payables

The composition of interfund balances as of August 31, 2020, is as follows:

Fund	Interfund Receivables	Interfund Payables
General fund	\$ 581,455	\$ -
Special revenue fund	-	576,491
Internal service fund	-	4,964
<b>Totals</b>	<b>\$ 581,455</b>	<b>\$ 581,455</b>

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

Interfund balances consist of short-term lending/borrowing arrangements that generally result from payroll and other regularly occurring charges that are primarily paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

#### 2. Transfers

Interfund transfers are defined as "flows of assets without equivalent flow of assets in return and without a requirement for repayment." Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the Center's transfers for the fiscal year ended August 31, 2020.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 207,211
Internal service fund	207,211	-
<b>Total</b>	<b>\$ 207,211</b>	<b>\$ 207,211</b>

Transfers out of the general fund are to supplement program activities in the Center's internal service fund.

#### D. Capital Assets

Capital asset activity for the fiscal year ended August 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Building leasehold improvements	\$ 1,122,067	\$ -	\$ -	\$ 1,122,067
Furniture and equipment	2,243,642	31,357	(14,930)	2,260,069
Total capital assets, being depreciated	3,365,709	31,357	(14,930)	3,382,136
Less accumulated depreciation for:				
Building leasehold improvements	(748,045)	(112,206)	-	(860,251)
Furniture and equipment	(1,740,519)	(191,102)	14,930	(1,916,691)
Total accumulated depreciation	(2,488,564)	(303,308)	14,930	(2,776,942)
Total capital assets, being depreciated, net	877,145	(271,951)	-	605,194
<b>Governmental activities capital assets, net</b>	<b>\$ 877,145</b>	<b>\$ (271,951)</b>	<b>\$ -</b>	<b>\$ 605,194</b>

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

Depreciation expense was charged to functions/programs of the Center as follows:

	Governmental Activities
Governmental activities:	
11 Instruction	\$ 5,857
12 Instructional resources and media services	4,138
13 Curriculum and instructional staff development	54,265
23 School leadership	235
41 General administration	5,519
51 Plant maintenance and operations	163,016
53 Data processing services	63,096
62 School district administrative support services	7,182
<b>Total depreciation expense</b>	<b>\$ 303,308</b>

#### E. Long-term Liabilities

The Center's long-term liabilities consist of notes payable, compensated absences and net pension and OPEB liability. Notes payable are liquidated with resources of the internal service fund. Compensated absences, net pension liability and net OPEB liability are liquidated with resources of the general fund.

#### Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended August 31, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Notes payable	\$ 24,676	\$ -	\$ (24,676)	\$ -	\$ -
Compensated absences	284,089	333,813	(262,740)	355,162	355,162
Net pension liability	4,373,857	458,316	(1,150,602)	3,681,571	-
Net OPEB liability	5,963,855	438,897	(1,444,698)	4,958,054	-
<b>Governmental activities long-term liabilities</b>	<b>\$ 10,646,477</b>	<b>\$ 1,231,026</b>	<b>\$ (2,882,716)</b>	<b>\$ 8,994,787</b>	<b>\$ 355,162</b>

#### Notes Payable

The Center entered into equipment lease-purchase agreements to acquire various servers and computer related equipment. These agreements are secured by underlying assets purchased. Notes payable activity for the fiscal year ended August 31, 2020, was as follows:

Governmental Activities Description	Date of Issuance	Maturity Date	Interest Rate Payable	Amounts Original Issue	Beginning Balance	Additions	Retirements	Ending Balance
Internal Service Fund:								
Technology equipment lease purchase	9/1/2016	8/31/2020	3.75%	93,482	\$ 24,676	\$ -	\$ (24,676)	\$ -
<b>Total notes payable - Governmental activities</b>					<b>\$ 24,676</b>	<b>\$ -</b>	<b>\$ (24,676)</b>	<b>\$ -</b>



## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### F. Operating Leases

The Center signed a ten year lease agreement beginning May 1, 2013 with Edison Plaza Partners, LLC for office and conference space on the fourth and fifth floors of the Edison Plaza Building in Beaumont, Texas. The monthly lease payments are \$50,000 for the first 36 months, then increase to \$55,000 for months 37-84 and \$60,000 for months 85-120. A five-year lease agreement beginning July 15, 2017 was also signed with Edison Plaza Partners, LLC for additional office and conference space on the sixth floor. The monthly lease payments vary from \$13,005 to \$13,798 during the term of the lease. The Center also signed a five-year garage lease beginning December 1, 2016 with Edison Plaza Partners, LLC for garage space. The monthly payment is \$3,000 for the term of the lease.

The Center enters into other various operating leases for equipment usage. The annual lease payments as of August 31, 2020 are as follows:

Year Ending August 31,	Edison Plaza Partners, LLC	Dell Equipment Leases	Other Operating Leases	Total Requirements
2021	\$ 919,350	\$ 105,872	\$ 18,872	\$ 1,044,094
2022	880,773	105,872	9,897	996,542
2023	240,000	-	3,299	243,299
<b>Totals</b>	<b>\$ 2,040,123</b>	<b>\$ 211,744</b>	<b>\$ 32,068</b>	<b>\$ 2,283,935</b>

Lease expense as of August 31, 2020 totaled \$1,084,314.

#### G. Other Committed and Other Assigned Fund Balance

Other committed fund balance in the general fund is comprised of \$290,000 for internal service future budgeted fund deficit related to facilities expenditures.

Other assigned fund balance in the general fund is comprised an assignment of \$350,000 for future staff raises, \$200,000 for Texas instructional leadership staffing, \$100,000 for retirement and leave payments, \$90,000 for future meeting room rental losses and \$75,000 assigned for local special education funds.

#### H. Revenues from Local and Intermediate Sources

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

	General Fund	Nonmajor Governmental Funds	Totals
Charges for services	\$ 5,291,692	\$ 1,175,806	\$ 6,467,498
Investment earnings	41,751	-	41,751
Donations and other	86,530	-	86,530
<b>Totals</b>	<b>\$ 5,419,973</b>	<b>\$ 1,175,806</b>	<b>\$ 6,595,779</b>

## **Region 5 Education Service Center**

### Notes to the Basic Financial Statements

#### **Note 4. Other Information**

##### **A. Risk Management**

###### **Property/Liability**

The Center is exposed to various risks of loss property/liability for which the Center participates in the Texas Association of School Boards Risk Management Fund (Fund) for property, liability and auto insurance. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages and develop a comprehensive loss control program. The Center pays an annual premium to the Fund for its liability coverage and transfers the risk of loss to the Fund. The Center's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and may provide, through commercial companies, reinsurance contracts. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, there were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

###### **Health Care Coverage**

During the fiscal year ended August 31, 2020, employees of the Center were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The Center paid premiums of \$385 per month, per employee, to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the Plan.

###### **Workers' Compensation**

The Center participates in a risk management program for workers' compensation through the Deep East Texas Workers' Compensation Insurance Fund (Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. The Center pays annual premiums into the fund and transfers risk to the fund. There were no significant reductions in insurance coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

##### **B. Contingencies**

The Center participates in a number of federal and state financial assistance programs. Although the Center's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2020, these programs are subject to financial and compliance audits by the grantor agencies. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

## **Region 5 Education Service Center**

### **Notes to the Basic Financial Statements**

#### **C. Defined Benefit Pension Plan**

##### **Plan Description**

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

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

##### **Pension Plan Fiduciary Net Position**

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at [http://www.trs.texas.gov/Pages/about\\_archive\\_cafr.aspx](http://www.trs.texas.gov/Pages/about_archive_cafr.aspx); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

##### **Benefits Provided**

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

##### **Contributions**

Employee contribution rates are set in state statute, Texas Government Code 825.402. Contribution requirements are established or amended pursuant to Article XVI, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

Rates for such plan fiscal years are as follows:

	Contribution Rates	
	2020	2019
Member	7.7%	7.7%
Non-employer contributing entity (State)	7.5%	6.8%
Employers (Center)	7.5%	6.8%
Employers (Center - Non-OASDI)*	1.5%	1.5%

\*SB12 requires an increase in employer contributions by public school districts, charter schools and regional education service centers. Prior to SB12, only those employers not participating in social security were required to pay a 1.5% contributions (Non-OASDI surcharge). Beginning September 1, 2019 all employers are required to pay the Public Education Employer contribution irrespective of

The contribution amounts for the Center's fiscal year 2020 are as follows:

Center contributions	\$	277,439
Member contributions		472,394
NECE on-behalf contributions (State)		274,710

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

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

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

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

- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment-after-retirement surcharge.
- When a school district/education service center or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the member's salary.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At August 31, 2020, the Center reported a liability of \$3,681,571 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Center. The amount recognized by the Center as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Center are as follows:

Center's proportionate share of the net pension liability	\$	3,681,571
State's proportionate share of the net pension liability associated with the Center		<u>3,713,981</u>
<b>Total</b>	<b>\$</b>	<b><u>7,395,552</u></b>

The net pension liability was measured as of August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as August 31, 2018 rolled forward to August 31, 2019. The Center's proportion of the net pension liability was based on the Center's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 through August 31, 2019.

At the measurement date of August 31, 2019, the Center's proportion of the collective net pension liability was 0.00708%, which was a decrease of 0.00086% from its proportion measured as of August 31, 2018.

For the fiscal year ended August 31, 2020, the Center recognized pension expense of \$1,526,089 and revenue of \$583,414 for support provided by the State.

At August 31, 2020, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,466	\$ 127,830
Changes of assumptions	1,142,204	472,013
Difference between projected and actual earnings on pension plan investments	36,967	-
Changes in proportion and difference between Center's contributions and the proportionate share of contributions	878,047	275,771
Center's contributions paid subsequent to the measurement date	<u>277,439</u>	<u>-</u>
<b>Totals</b>	<b><u>\$ 2,350,123</u></b>	<b><u>\$ 875,614</u></b>

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

\$277,439 reported as deferred outflows of resources resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ending August 31,	
	<u>          </u>	
2021	\$	405,731
2022		347,391
2023		239,508
2024		210,259
2025		46,720
Thereafter		<u>(52,539)</u>
<b>Totals</b>	<b>\$</b>	<b><u>1,197,070</u></b>

#### Actuarial Methods and Assumptions

The actuarial valuation of the total pension liability was performed as of August 31, 2018. Update procedures were used to roll forward the total pension liability to August 31, 2019 and was determined using the following actuarial methods and assumptions:

Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	7.25%
Long-term expected rate of return	7.25%
Municipal bond rate as of August 2019	2.63%. Source for the rate is the Fixed Income Market Data / Yield Curve / Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Last year ending August 31 in projection period (100 years)	2116
Inflation	2.30%
Salary increases	3.05% to 9.05% including inflation
Ad hoc postemployment benefit changes	None
Active mortality rates	Based on 90% of the RP 2014 Employing Mortality Tables for males and females with full generational mortality. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables with full generational projection using the ultimate improvement rates from the most recently published projection scale U-MP.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

The actuarial methods and assumptions are primarily based on a study of actual experience for the three year period ending August 31, 2018 and adopted in July 2018.

#### Discount Rate and Long-Term Expected Rate of Return

A single discount rate of 7.25% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine the single discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity will be made at the statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2019 are summarized below:

Asset Class	Target Allocation*	Long-term Expected Arithmetic Real Rate of Return
Global equity:		
U.S.	18.00%	5.70%
Non-U.S. developed	13.00%	6.90%
Emerging markets	9.00%	8.95%
Directional hedge funds	4.00%	3.53%
Private equity	13.00%	10.18%
Stable value:		
U.S. treasuries	11.00%	1.11%
Stable value hedge funds	4.00%	3.09%
Real return:		
Global inflation linked bonds	3.00%	0.70%
Real estate	14.00%	5.21%
Energy, natural resources and infrastructure	5.00%	7.48%
Risk parity:		
Risk parity	5.00%	3.70%
Asset allocation leverage cash	1.00%	(0.30)
<b>Totals</b>	<b>100.00%</b>	

\* FY 2019 target allocation based on the strategic asset allocation dated 10/1/2018

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### Discount Rate Sensitivity Analysis

The following table presents the Center's proportionate share of the TRS net pension liability calculated using the discount rate of 7.25%, as well as what the Center's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability	\$ 5,659,109	\$ 3,681,571	\$ 2,079,383

#### Change of Assumptions Since the Prior Measurement Date

- The single discount rate as of August 31, 2018 was a blended rate of 6.907% and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of SB3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

#### Change of Benefit Terms Since the Prior Measurement Date

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

#### D. Defined Other Postemployment Benefit Plan

##### Plan Description

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

##### OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [http://www.trs.texas.gov/Pages/about\\_archive\\_cafr.aspx](http://www.trs.texas.gov/Pages/about_archive_cafr.aspx); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

##### Benefits Provided

TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other centers who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees of TRS is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052.



## Region 5 Education Service Center

### Notes to the Basic Financial Statements

The premium rates for retirees are reflected in the following table:

TRS-Care Monthly Plan Premium Rates

	Medicare	Non-medicare
Retiree or surviving spouse	\$ 135	\$ 200
Retiree and spouse	529	689
Retiree or surviving spouse and children	468	408
Retiree and family	1,020	999

#### Contributions

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

Texas Insurance Code, section 1575.202 establishes the State's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act.

Rates for such plan fiscal years are as follows:

	Contribution Rates	
	2020	2019
Active employee	0.65%	0.65%
Non-employer contribution entity (State)	1.25%	1.25%
Employers (Center)	0.75%	0.75%
Federal/private funding*	1.25%	1.25%

\*Contributions paid from federal funds and private grants are remitted by the employer (District) and paid at the State rate.

The contribution amounts for the Center's fiscal year 2020 are as follows:

Center contributions	\$ 76,646
Member contributions	39,877
NECE on-behalf contributions (State)	70,247

In addition, the State of Texas contributed \$29,906, \$24,121 and \$22,684 in 2020, 2019, and 2018, respectively, for on-behalf payments for Medicare Part D.

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS Care OPEB program). When hiring a TRS retiree, employers are required to pay TRS-Care a monthly surcharge of \$535 per retiree.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

TRS-Care received a supplemental appropriation from the State of Texas as the Non-Employer Contributing Entity in the amount of \$73.6 million in fiscal year 2019.

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At August 31, 2020, the Center reported a liability of \$4,958,054 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the Center. The amount recognized by the Center as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the Center are as follows:

Center's proportionate share of the net OPEB liability	\$ 4,958,054
State's proportionate share of the net OPEB liability associated with the Center	<u>6,588,144</u>
<b>Total</b>	<b><u>\$ 11,546,198</u></b>

The net OPEB liability was measured as of August 31, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as August 31, 2018 rolled forward to August 31, 2019. The Center's proportion of the net OPEB liability was based on the Center's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 through August 31, 2019.

At the measurement date of August 31, 2019, the employer's proportion of the collective net OPEB liability was 0.01048%, which was a decrease of 0.00146% from its proportion measured as of August 31, 2018.

For the fiscal year ended August 31, 2020, the Center recognized OPEB expense of \$346,181 and revenue of \$173,636 for support provided by the State.

At August 31, 2020, the Center reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 243,235	\$ 811,333
Changes of assumptions	275,381	1,333,595
Difference between projected and actual earnings on OPEB plan investments	535	-
Changes in proportion and difference between Center contributions and the proportionate share of contributions	977,976	808,097
Center contributions paid subsequent to the measurement date	<u>76,646</u>	<u>-</u>
<b>Totals</b>	<b><u>\$ 1,573,773</u></b>	<b><u>\$ 2,953,025</u></b>

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

\$76,646 reported as deferred outflows of resources resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended August 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending August 31,	
2021	\$ (235,201)
2022	(235,201)
2023	(235,374)
2024	(235,473)
2025	(235,448)
Thereafter	(279,201)
<b>Total</b>	<b>\$ (1,455,898)</b>

#### Actuarial Methods and Assumptions

The actuarial valuation of the total OPEB liability was performed as of August 31, 2018. Update procedures were used to roll forward the total OPEB liability to August 31, 2019.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The following assumptions used for the valuation of the TRS-Care OPEB liability are identical to the assumptions employed in the August 31, 2019 TRS annual pension actuarial valuation:

<u>Demographic Assumptions</u>	<u>Economic Assumptions</u>
Rates of mortality	General inflation
Rates of retirement	Wage inflation
Rates of termination	Salary increases
Rates of disability	

See Note 4.C. for detail on these assumptions. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The initial medical trend rates were 10.25% for Medicare retirees and 7.50% for non-Medicare retirees. There was an initial prescription drug trend rate of 10.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.50 % over a period of 13 years.

**Region 5 Education Service Center**  
Notes to the Basic Financial Statements

The following methods and additional assumptions were used in the TRS-Care OPEB valuation:

Actuarial cost method	Individual entry age normal
Single discount rate	2.63%
Aging factors	Based on plan specific experience
Election rates	Normal retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Ad hoc postemployment benefit changes	None

The impact of the Cadillac Tax that is returning in fiscal year 2023 has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.30%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

**Discount Rate**

A single discount rate of 2.63% was used to measure the total OPEB liability at August 31, 2019. This was a decrease of 1.06% in the discount rate since the August 31, 2018 measurement date. The plan is essentially a "pay-as-you-go" plan, and based on the assumption that contributions are made at the statutorily required rates, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments to current members and therefore, the single discount rate is equal to the prevailing municipal bond rate. The source for the rate is the Fixed Income Market Data / Yield Curve / Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index".

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### Sensitivity Analysis of Rates

##### Discount Rate

The following table presents the Center's proportionate share of the TRS-Care net OPEB liability, as well as what the Center's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that was 1% less than and 1% greater than the discount rate that was used (2.63%) in measuring the net OPEB liability.

	1% Decrease (1.63%)	Current Discount Rate (2.63%)	1% Increase (3.63%)
Center's proportionate share of the net OPEB liability	\$ 5,985,961	\$ 4,958,054	\$ 4,153,920

##### Healthcare Cost Trend Rates

The following table presents the Center's proportionate share of net OPEB liability using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher than the assumed health-care cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Center's proportionate share of the net OPEB liability	\$ 4,044,606	\$ 4,958,054	\$ 6,181,653

#### Change of Assumptions Since the Prior Measurement Date

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

- The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the total OPEB liability.
- The participation rate for pre-65 retirees was lowered from 70% to 65%. The participation rate for post-65 retirees was lowered from 75% to 50%. 25% of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the total OPEB liability.
- The trend rates were reset to better reflect the plan's anticipated experience. This change increased the total OPEB liability.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%. These changes decreased the total OPEB liability.

#### Change of Benefit Terms Since the Prior Measurement Date

There were no changes in benefit terms since the prior measurement date.

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

#### E. Shared Services Arrangements – Fiscal Agent

##### Model 1

The Center is the fiscal agent for a Title I Part C Migrant (Fund 301) Shared Services Arrangement, Career and Technical Basic Grant (Fund 331) Shared Services Arrangement, and Title III Part A English Language Acquisition and Language Enhancement (Fund 350) Shared Services Arrangement. The Center is responsible for part of the financial activities of the shared services arrangements. Expenditures for each shared services arrangement is summarized on the following schedule:

Member District	CDN	Title I Part C Migrant Fund 301	Career and Technical Basic Grant Fund 331	Title III English Language Acquisition Fund 350
Beaumont ISD	123910	\$ 6,267	\$ -	\$ -
Bob Hope School	123807	27,588	-	-
Buna ISD	121903	-	12,626	723
Burkeville ISD	176901	-	4,711	-
Deweyville ISD	176903	-	6,003	-
Ehrhart School	123805	-	-	16,782
Evadale ISD	121906	-	4,055	434
Hamshire-Fannett ISD	123914	-	14,094	6,438
Hardin-Jefferson ISD	100905	-	-	7,523
High Island ISD	84903	-	1,675	-
Hull-Daisetta ISD	146905	-	-	1,085
Kirbyville CISD	121905	-	-	2,604
Kountze ISD	100903	-	-	2,604
Little Cypress-Mauriceville CISD	181908	-	-	4,919
Lumberton ISD	100907	-	-	5,570
Nederland ISD	123905	7,121	-	-
Newton ISD	176902	-	15,150	-
Orangefield ISD	181905	7,372	13,573	2,604
Port Neches-Groves ISD	123908	2,566	-	-
Sabine Pass ISD	123913	-	5,092	-
Silsbee ISD	100904	-	-	3,544
Spurger ISD	229905	-	-	506
Tekoa Academy of Accelerated Studies	123803	-	6,585	-
Vidor ISD	181907	-	-	5,570
Warren ISD	229904	-	-	796
West Hardin County CISD	100908	-	3,398	-
West Sabine ISD	202905	-	-	217
Woodville ISD	229903	673	-	3,834
Unallocated		-	3,866	-
<b>Totals</b>		<b>\$ 51,587</b>	<b>\$ 90,828</b>	<b>\$ 65,753</b>

## Region 5 Education Service Center

### Notes to the Basic Financial Statements

The Center is also a fiscal agent in two shared service arrangement programs funded by member school districts, *Jefferson County Juvenile Justice Alternative Education Program* and *Hardin County Alternative Education Program*, which are described as follows:

The programs are established under Texas Education Code 37.011. The Center serves as the fiscal agent and instructional program monitor, including overseeing instructional programs, hiring and evaluating instructional staff, coordinating services between districts and county entities and scheduling governance board meetings.

#### **F. Recent Accounting Pronouncements**

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2018; however, issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95), extended the effective date of GASB 84 to reporting periods beginning after December 15, 2019, with earlier application encouraged. GASB 84 will be implemented in the Center's fiscal year 2021 financial statements and the impact has not yet been determined.

GASB Statement No. 87, *Leases* (GASB 87), establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2019; however, issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95), extended the effective date of GASB 87 to reporting periods beginning after June 15, 2021, with earlier application encouraged. GASB 87 will be implemented in the Center's fiscal year 2022 financial statements and the impact has not yet been determined.

#### **G. Prior Period Adjustment**

Beginning net position for Governmental Activities and beginning fund balance for the Special Revenue Fund was restated by \$225,977 as of September 1, 2019 resulting from a correction to Jefferson County Juvenile Justice Alternative Education Program and Hardin County Alternative Education Program fees that were previously reported as unearned revenue.

#### **H. Subsequent Events**

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected public education, workforces, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and organizations. It is not possible for management to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on the Center's operations and financial results at this time.

## **Required Supplementary Information**



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# Region 5 Education Service Center

# Exhibit F-1

Schedule of Revenues, Expenditures, and Changes  
in Fund Balance – Budget and Actual  
General Fund  
For the Fiscal Year Ended August 31, 2020

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
<b>REVENUES</b>					
5700	Local and intermediate revenues	\$ 5,649,953	\$ 6,165,006	\$ 5,419,973	\$ (745,033)
5800	State program revenues	790,125	773,873	796,830	22,957
5900	Federal program revenues	265,000	303,032	308,742	5,710
5020	Total revenues	6,705,078	7,241,911	6,525,545	(716,366)
<b>EXPENDITURES</b>					
Current:					
0011	Instruction	621,420	616,024	607,942	8,082
0013	Curriculum and instructional staff development	2,089,637	1,878,085	1,594,852	283,233
0041	General administration	979,435	939,011	861,523	77,488
0051	Plant maintenance and operations	510,801	557,964	551,679	6,285
0053	Data processing services	1,379,139	1,381,595	1,300,883	80,712
0062	School district administrative support services	1,169,778	1,236,594	1,066,356	170,238
6030	Total expenditures	6,750,210	6,609,273	5,983,235	626,038
1100	Excess (deficiency) of revenues over (under) expenditures	(45,132)	632,638	542,310	(90,328)
<b>OTHER FINANCING SOURCES (USES)</b>					
8911	Transfers out	(95,000)	(245,000)	(207,211)	37,789
7080	Total other financing sources (uses)	(95,000)	(245,000)	(207,211)	37,789
1200	Net change in fund balance	(140,132)	387,638	335,099	(52,539)
0100	Fund balance - beginning	3,911,594	3,911,594	3,911,594	-
3000	<b>FUND BALANCES - ENDING</b>	<u>\$ 3,771,462</u>	<u>\$ 4,299,232</u>	<u>\$ 4,246,693</u>	<u>\$ (52,539)</u>

The Notes to the Required Supplementary Information are an integral part of this schedule.

## Region 5 Education Service Center

Schedule of the Center's Proportionate Share of the Net  
Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan  
Teacher Retirement System of Texas  
For the Last Six Fiscal Years\*

	2020	2019
Center's proportion of the net pension liability	0.0070822%	0.0079463%
Center's proportionate share of the net pension liability	\$ 3,681,571	\$ 4,373,857
State's proportionate share of the net pension liability associated with the Center	3,713,981	4,195,877
<b>TOTALS</b>	<b>\$ 7,395,552</b>	<b>\$ 8,569,734</b>
Center's covered payroll	\$ 6,090,091	\$ 6,232,574
Center's proportionate share of the net pension liability as a percentage of its covered payroll	60.45%	70.18%
Plan fiduciary net position as a percentage of the total pension liability	75.24%	73.74%

\* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year.  
Ten years of data is not available.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
0.0068505%	0.0064123%	0.0068271%	0.0004469%
\$ 2,190,407	\$ 2,423,125	\$ 2,413,289	\$ 119,374
<u>2,393,763</u>	<u>2,747,687</u>	<u>2,714,559</u>	<u>3,348,287</u>
<u>\$ 4,584,170</u>	<u>\$ 5,170,812</u>	<u>\$ 5,127,848</u>	<u>\$ 3,467,661</u>
\$ 5,659,586	\$ 5,206,131	\$ 5,161,940	\$ 4,782,127
38.70%	46.54%	46.75%	2.50%
82.17%	78.00%	78.43%	83.25%

## Region 5 Education Service Center

Schedule of the Center's Contributions to the  
Teacher Retirement System of Texas Pension Plan  
For the Last Six Fiscal Years\*

	<u>2020</u>	<u>2019</u>
Contractually required contributions	\$ 277,439	\$ 242,087
Contributions in relation to the contractually required contributions	<u>(277,439)</u>	<u>(242,087)</u>
<b>CONTRIBUTION DEFICIENCY (EXCESS)</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Center's covered payroll	\$ 6,134,982	\$ 6,090,091
Contributions as a percentage of covered payroll	4.52%	3.98%

\*The amounts presented for the fiscal years were determined as of the Center's fiscal year end.  
Ten years of data is not available.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 274,043	\$ 224,518	\$ 203,736	\$ 202,154
<u>(274,043)</u>	<u>(224,518)</u>	<u>(203,736)</u>	<u>(202,154)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 6,232,574	\$ 5,659,586	\$ 5,206,131	\$ 5,161,940
4.40%	3.97%	3.91%	3.92%

**Region 5 Education Service Center****Exhibit F-4**

Schedule of the Center's Proportionate Share of the Net OPEB  
 Liability of a Cost-Sharing Multiple-Employer OPEB Plan  
 Teacher Retirement System of Texas  
 For the Last Three Fiscal Years\*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Center's proportion of the net OPEB liability	0.0104841%	0.0119442%	0.0099075%
Center's proportionate share of the net OPEB liability	\$ 4,958,054	\$ 5,963,855	\$ 4,308,383
State's proportionate share of the net OPEB liability associated with the Center	<u>6,588,144</u>	<u>3,488,414</u>	<u>3,012,623</u>
<b>TOTALS</b>	<u><u>\$ 11,546,198</u></u>	<u><u>\$ 9,452,269</u></u>	<u><u>\$ 7,321,006</u></u>
Center's covered payroll	\$ 6,090,091	\$ 6,232,574	\$ 5,659,586
Center's proportionate share of the net OPEB liability as a percentage of its covered payroll	81.41%	95.69%	76.13%
Plan fiduciary net position as a percentage of the total OPEB liability	2.66%	1.57%	0.91%

\* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year.  
 Ten years of data is not available.

**Region 5 Education Service Center**  
Schedule of the Center's Contributions to the  
Teacher Retirement System of Texas OPEB Plan  
For the Last Three Fiscal Years\*

**Exhibit F-5**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 76,646	\$ 74,398	\$ 83,052
Contributions in relation to the contractually required contributions	<u>(76,646)</u>	<u>(74,398)</u>	<u>(83,052)</u>
<b>CONTRIBUTION DEFICIENCY (EXCESS)</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Center's covered payroll	\$ 6,134,982	\$ 6,090,091	\$ 6,232,574
Contributions as a percentage of covered payroll	1.25%	1.22%	1.33%

\*The amounts presented for the fiscal years were determined as of the Center's fiscal year end.  
Ten years of data is not available.



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## Region 5 Education Service Center

### Notes to the Required Supplementary Information

#### Note 1. Budget

##### A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The Center is not legally required to adopt an annual budget for the special revenue fund, therefore, a budget comparison schedule is not included in the Center's required supplementary information. All annual appropriations lapse at fiscal year-end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. 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.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and department. The Center's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Center's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund.

##### B. Variances Between Actual and Final Budget

There were no significant variances between the final amended budget and actual results.

#### Note 2. Net Pension Liability and Net OPEB Liability

The following factors significantly affect trends in the amounts reported for the Center's proportionate share of the net pension liability and net OPEB liability:

##### Changes in actuarial assumptions and inputs

Measurement Date August 31,	Net Pension Liability		Net OPEB Liability
	Discount Rate	Long-term Expected Rate of Return	Discount Rate
2019	7.250%	7.250%	2.630%
2018	6.907%	7.250%	3.690%
2017	8.000%	8.000%	3.420%
2016	8.000%	8.000%	
2015	8.000%	8.000%	
2014	8.000%	8.000%	

## **Region 5 Education Service Center**

### **Notes to the Required Supplementary Information**

#### **Changes in demographic and economic assumptions**

For measurement dates August 31, 2019 and 2014-2017 – No changes in assumptions.

For measurement date August 31, 2018 – Net Pension Liability and Net OPEB Liability:

- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement and economic assumptions, including rates of salary increase for individual participants were updated based on the experience study performed for TRS for the period ending August 31, 2017.

## **Supplementary Information**

# Region 5 Education Service Center

# Exhibit G-1

Combining Balance Sheet

Special Revenue Fund

August 31, 2020

Data Control Codes		State and Federal Programs	Hardin Co JJAEP	Jefferson Co JJAEP	Locally Funded Programs	Total Special Revenue Fund (See Exhibit C-1)
<b>ASSETS</b>						
1110	Cash and cash equivalents	\$ -	\$ 233,338	\$ 421,124	\$ 240,575	\$ 895,037
1240	Due from other governments	588,825	-	-	-	588,825
1290	Other receivables	-	-	2,583	18,856	21,439
1410	Prepaid items	-	-	-	10,112	10,112
1000	<b>TOTAL ASSETS</b>	<b>\$ 588,825</b>	<b>\$ 233,338</b>	<b>\$ 423,707</b>	<b>\$ 269,543</b>	<b>\$ 1,515,413</b>
<b>LIABILITIES</b>						
2160	Accrued wages payable	\$ 12,334	\$ 2,239	\$ 4,421	\$ -	18,994
2170	Due to other funds	576,491	-	-	-	576,491
2000	<b>Total liabilities</b>	<b>588,825</b>	<b>2,239</b>	<b>4,421</b>	<b>-</b>	<b>595,485</b>
<b>FUND BALANCES</b>						
3430	Nonspendable - prepaid items	-	-	-	10,112	10,112
3450	Restricted - grant funds	-	231,099	419,286	259,431	909,816
3000	<b>Total fund balances</b>	<b>-</b>	<b>231,099</b>	<b>419,286</b>	<b>269,543</b>	<b>919,928</b>
4000	<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 588,825</b>	<b>\$ 233,338</b>	<b>\$ 423,707</b>	<b>\$ 269,543</b>	<b>\$ 1,515,413</b>

# Region 5 Education Service Center

# Exhibit G-2

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Special Revenue Fund  
For the Fiscal Year Ended August 31, 2020

Data Control Codes		State and Federal Programs	Hardin Co JJAEP	Jefferson Co JJAEP	Locally Funded Programs	Total Special Revenue Fund (See Exhibit C-2)
<b>REVENUES</b>						
5700	Local and intermediate revenues	\$ -	\$ 75,660	\$ 362,862	\$ 737,284	\$ 1,175,806
5800	State program revenues	781,713	-	11,578	10,240	803,531
5900	Federal program revenues	5,091,352	-	-	-	5,091,352
5020	Total revenues	5,873,065	75,660	374,440	747,524	7,070,689
<b>EXPENDITURES</b>						
Current:						
0011	Instruction	134,945	59,325	256,732	-	451,002
0013	Curriculum and instructional staff development	5,120,969	-	-	-	5,120,969
0023	School leadership	-	-	40,782	-	40,782
0041	General administration	-	10,500	20,000	56,819	87,319
0051	Plant maintenance and operations	290,375	-	1,287	19,558	311,220
0053	Data processing services	249,883	-	-	615,251	865,134
0062	School district administrative support services	33,614	-	-	-	33,614
Intergovernmental:						
0093	Payments related to shared service arrangements	22,816	-	-	-	22,816
6030	Total expenditures	5,852,602	69,825	318,801	691,628	6,932,856
1100	Excess (deficiency) of revenues over (under) expenditures	20,463	5,835	55,639	55,896	137,833
<b>OTHER FINANCING SOURCES (USES)</b>						
8949	Reimbursements to districts	(20,463)	-	-	-	(20,463)
7080	Total other financing sources (uses)	(20,463)	-	-	-	(20,463)
1200	Net change in fund balances	-	5,835	55,639	55,896	117,370
0100	Fund balances - beginning	-	106,814	256,120	213,647	576,581
3700	Prior period adjustment	-	118,450	107,527	-	225,977
0100	Fund balances - beginning, as restated	-	225,264	363,647	213,647	802,558
3000	<b>FUND BALANCES - ENDING</b>	<b>\$ -</b>	<b>\$ 231,099</b>	<b>\$ 419,286</b>	<b>\$ 269,543</b>	<b>\$ 919,928</b>

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## **Overall Compliance, Internal Control Section and Federal Awards**



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**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

To the Board of Trustees of  
Region 5 Education Service Center  
Beaumont, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Region 5 Education Service Center (the Center) as of and for the fiscal year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 14, 2020.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

***Compliance and Other Matters***

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

Weaver and Tidwell, L.L.P.  
1406 Wilson Road, Suite 100 / Conroe, Texas 77304  
Main: 936.756.8127

The Board of Trustees of  
Region 5 Education Service Center

### **Region 5 Education Service Center's Response to Findings**

The Center's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
December 14, 2020



**Independent Auditor's Report on Compliance for Each Major Federal  
Program and Report on Internal Control over Compliance  
in Accordance with the Uniform Guidance**

To the Board of Trustees of  
Region 5 Education Service Center  
Beaumont, Texas

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

We have audited Region 5 Education Service Center's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the fiscal year ended August 31, 2020. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended August 31, 2020.

## Report on Internal Control over Compliance

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

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

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

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

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
December 14, 2020

**Region 5 Education Service Center**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended August 31, 2020

**Section 1. Summary of Auditor's Results**

**Financial Statements**

- |  |               |
|--|---------------|
| 1. Type of auditor's report issued   | Unmodified    |
| 2. Internal control over financial reporting:  |               |
| a. Material weakness(es) identified?   | Yes           |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to Financial Statements noted?                                     | No            |

**Federal Awards**

- |   |   |
|---|---|
| 4. Internal control over major programs:  |   |
| a. Material weakness(es) identified?  | No  |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses?          | None reported   |
| 5. Type of auditor's report issued on compliance with major programs                                  | Unmodified  |
| 6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | No  |
| 7. Identification of major programs   | Title I 84.010A<br>Special Education Cluster (IDEA) 84.027A and 84.173A |
| 8. Dollar threshold used to distinguish between Type A and Type B federal programs                    | \$750,000   |
| 9. Auditee qualified as a low-risk auditee?   | Yes   |

**Region 5 Education Service Center**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended August 31, 2020

**Section 2. Financial Statement Findings**

**2020-001**

**Material Weakness in Internal Control over Financial Reporting: Financial Statement Misstatements**

Criteria

Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

Condition

Beginning net position of governmental activities and beginning fund balance of the special revenue fund was restated in the August 31, 2020 financial statements to correct misstatements in the balances previously reported associated with unearned revenues of the prior year which had not been recognized in the correct period. The restatement was an increase of beginning net position/fund balance by \$225,977 to recognize the unearned revenues that was earned in prior periods.

Cause

In the preparation of its financial records for the year ended August 31, 2020, the Center failed to recognize revenues earned and collected in prior years. Because these errors were not detected timely, there is an indication that closing procedures, specifically the monitoring and review of financial information, were not being effectively performed.

Effect or Potential Effect

Material misstatements of the Center's financial statements were not prevented, or detected and corrected, by the Center's system of internal control. Failure to establish effective monitoring and closing procedures will allow possible irregularities to exist and continue without notice.

Recommendation

We recommend that the District review its internal control procedures over financial reporting to ensure controls are in place to identify and record all revenues in the correct period.

Views of Responsible Officials and Planned Corrective Actions

See corrective action plan

**Section 3. Federal Award Findings and Questioned Costs**

None reported

**Region 5 Education Service Center**  
Summary Schedule of Prior Audit Findings  
For The Fiscal Year Ended August 31, 2020

**Prior Year Findings**

None reported.





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**Current Year Findings**

**2020-001**

**Material Weakness in Internal Control over Financial Reporting: Financial Statement Misstatements**

Corrective Action Plan

The Chief Financial Officer will review the Center's procedures related to internal controls to ensure all revenues received within the fiscal year are recorded appropriately and in the correct financial period. The CFO will meet with the Grant Manager and other Business Office staff to review and certify revenue postings for Special Revenue Funds 446 and 447. The CFO will keep written documentation of this review and certify the results upon completion.

Person(s) Responsible

Denise Wallace, Chief Financial Officer

Anticipated Completion Date

August 31, 2021

**Region 5 Education Service Center**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended August 31, 2020**

**Exhibit K-1**  
**(Page 1 of 2)**

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Total Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through Texas Department of Agriculture:			
Education Service Center Child Nutrition	10.560	PO 551-9-15612	\$ 39,561
Education Service Center Child Nutrition	10.560	PO 551-0-15612	340,108
Total Program 10.560			379,669
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			379,669
<b>U.S. DEPARTMENT OF LABOR</b>			
Passed Through Workforce Solutions of Southeast Texas:			
WIOA Cluster:			
Texas Industry Partnership Initiative	17.258	1819TIP000	64,596
Total WIOA Cluster			64,596
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			64,596
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Direct:			
School Leadership Program	84.363A	U363A130077 - 16	5,528
Passed Through Texas Workforce Commission:			
Performance Quality Improvement Award	84.002A	1819PQI001	36,871
Performance Quality Improvement Award	84.002A	1820PQI001	13,762
Workforce Integration Initiative	84.002A	1820AEL001	2,519
Adult Basic Education (ABE) - Federal	84.002A	1818ALA000	43,418
Adult Basic Education (ABE) - Federal	84.002A	1818ALAB00	655,321
Adult Basic Education (ABE) - Federal	84.002A	1818ALAC00	115,779
Total Program 84.002A			867,670
Charting the Course	84.126	3018VRS230	45,221
Passed Through Texas Education Agency:			
ESEA Title I, Priority School Support	84.010A	196101407110005	98,122
ESEA Title I, Priority School Support	84.010A	206101537110005	402,587
ESEA Title I, Part A	84.010A	206101197110005	45,456
School Improvement Facilitation	84.010A	19610547110005	185,404
ESC Tx Instructional Leadership	84.010A	206101457110005	85,072
Total Program 84.010A			816,641
ESEA Title I, Part C - Migrant Education	84.011A	206150027110005	244,084
ESEA Title I, Part C - Migrant Education	84.011A	20615001181950	51,669
ESEA Title I, Part C - Migrant Education	84.011A	19615001181950	3,367
Total Program 84.011A			299,120
Special Education Cluster (IDEA):			
IDEA - Part B, Discretionary	84.027A	206600227110005	55,443
IDEA - Part B, Discretionary	84.027A	206600567110005	752,878
IDEA - Part B, Discretionary	84.027A	206600587110005	101,057
IDEA - Part B, Discretionary	84.027A	206600597110005	30,289
IDEA - Part B, Discretionary	84.027A	206600657110005	139,151
IDEA - Part B, Discretionary	84.027A	2066005718119500000	7,163
IDEA - Part B, Discretionary	84.027A	2066005718119506000	23,605
Total Program 84.027A			1,109,586
IDEA - Part B, Preschool	84.173A	206610227110005	164,818
Total Special Education Cluster (IDEA)			1,274,404
ESC CTE Leadership	84.048A	204200097110005	21,468
CTE PBMD / Admin for ESC	84.048A	204200107110005	41,107
Texas Ecosystem Design	84.048A	194200637110005	9,178
CTE Basic Grant - SSA	84.048A	20420006181950	95,674
Total Program 84.048A			167,427

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

**Region 5 Education Service Center**  
Schedule of Expenditures of Federal Awards – Continued  
For the Fiscal Year Ended August 31, 2020

**Exhibit K-1**  
(Page 2 of 2)

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Total Federal Expenditures
ESC Capacity Building Grant	84.196A	194600087110005	7,404
Title III, Part A - English Language Acquisition	84.365A	206710027110005	31,913
Title III, Part A - English Language Acquisition - SSA	84.365A	20671001181950	70,151
Total Program 84.365A			102,064
Equity Plan Support	84.367A	196945647110005	2,165
Instructional Leadership Management	84.367A	196945657110002	115,596
Technical Assistance and Monitoring	84.367A	196945747110005	4,000
Texas Instructional Leader Expansion	84.367A	196945737110005	66,409
Total Program 84.367A			188,170
Reading Academy Authorized Provider	84.377A	166107387110005	10,259
Instructional Continuity	84.377A	176107417110005	80,654
Total Program 84.377A			90,913
Title IV Part A ESC TA	84.424A	196801057110005	76,834
Title IV Mental and Behavioral Health	84.424A	196801107110005	51,343
Total Program 84.424A			128,177
Restart Hurricane Recovery	84.938A	18511701181950	56,262
ESC Title 1, Part A	84.999	206000117110005	38,928
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			4,087,929
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through Texas Workforce Commission:			
TANF Cluster:			
Temporary Assistance for Needy Families (TANF)	93.558	1818ALA000	1,687
Temporary Assistance for Needy Families (TANF)	93.558	1818ALAB00	89,969
Temporary Assistance for Needy Families (TANF)	93.558	1818ALAC00	10,540
Total TANF Cluster			102,196
Passed Through Texas Education Agency:			
AWARE Texas	93.243	204700017110005	314,694
AWARE Texas	93.243	194700017110005	46,377
Total Program 93.243			361,071
CCDF Cluster:			
Regional Early Childhood Education Support Specialist	93.575	193928017110003	164,565
Regional Early Childhood Education Support Specialist	93.575	193928027110003	115,689
Passed Through The University of Texas Health Science:			
Texas School Ready!	93.575	UTHSC 0000953029	124,379
Total CCDF Cluster			404,633
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			867,900
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 5,400,094

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

## **Region 5 Education Service Center**

### **Notes to Schedule of Expenditures of Federal Awards**

#### **Note 1. Summary of Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Region 5 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 Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

#### **Note 2. De Minimis Cost Rate**

The Center has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

**Region 5 Education Service Center**  
Schedule of Required Responses to Selected  
School FIRST Indicators (Unaudited)  
For the Fiscal Year Ended August 31, 2020

**Exhibit L-1**

<b>Data Codes</b>		<b>Responses</b>
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF3	Did the education service center make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the education service center was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the education service center is considered <b>to not have made</b> timely payments.  Payments to the TRS and TWC are considered timely if a warrant hold that was issued in connection to the untimely payment was cleared within 30 days from the date the warrant hold was issued.  Payments to the IRS are considered timely if a penalty or delinquent payment notice was cleared within 30 days from the date the notice was issued.	Yes
SF4	Was the education service center issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the education service center is considered to have been issued a warrant hold.	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	Yes
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the education service center post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the education service center's fiscal year end?	Yes
SF8	Did the education service center board members discuss the education service center's property values at a board meeting within 120 days before the education service center adopted its budget?	N/A
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	\$ -