Region 5 Education Service Center

Annual Financial Report
For the Fiscal Year Ended August 31, 2019

"Educational Professionals serving Educational Professionals"

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Region 5 Education Service Center

Annual Financial Report
For the Fiscal Year Ended August 31, 2019
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Certificate of the Board

Region 5 Education Service Center	**Jefferson**	**181-950**
Name of Region Center	County	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, 2019 at a meeting of the Board of Directors of such region center on the 19th day of December, 2019.

Debbie Nicks
Signature of Board Secretary

Earl R. Jeffery
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 year ended August 31, 2019, 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.

Weaver and Tidwell, L.L.P.
1406 Wilson Road, Suite 100 | Conroe, Texas 77304
Main: 936.756.8127 | Fax: 936.756.8132
CPAs AND ADVISORS | WEAVER.COM

The Board of Trustees of
Region 5 Education Service Center

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of August 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 Reponses to Selected School FIRST Indicators 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 13, 2019 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 13, 2019

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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, 2019. 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 $2,663,329 (negative 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 $287,955 from current operations.
- As of the close of the current fiscal year, the Center's governmental funds had combined ending fund balances of $4,488,175, an increase of $637,554 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance of the general fund was $2,686,816, or 44 percent of the year's total general fund expenditures.
- The Center's total government-wide long-term pension liability increased by $2,183,450, or 100 percent, and long-term OPEB liability increased by $1,655,472, or 38 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, Community 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 $2,663,329 at the close of the most recent fiscal year.

Region 5 Education Service Center's Net Position

	Governmental Activities								
	2019			2018			Increase (Decrease)		
		Amount	%		Amount	%		Amount	%
Current and other assets	$	4,867,599	85	$	4,224,652	81	$	642,947	15
Capital assets, net of depreciation		877,145	15		988,651	19		(111,506)	(11)
Total assets		5,744,744	100		5,213,303	100		531,441	
Total deferred outflows of resources		4,679,993	100		1,680,701	100		2,999,292	178
Other liabilities		316,075	3		316,810	4		(735)	-
Long-term liabilities outstanding		10,646,477	97		6,815,469	96		3,831,008	56
Total liabilities		10,962,552	100		7,132,279	100		3,830,273	
Total deferred inflows of resources		2,125,514	100		2,137,099	100		(11,585)	(1)
Net position:									
Net investment in capital assets		852,469	(32)		936,095	(39)		(83,626)	(9)
Restricted		568,495	(21)		423,125	(18)		145,370	34
Unrestricted		(4,084,293)	153		(3,734,594)	157		(349,699)	9
Total net position	$	(2,663,329)	100	$	(2,375,374)	100	$	(287,955)	

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 32 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 $568,495 or 21 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 $4,084,293. At the end of the current fiscal year, the Center reported negative 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 $287,955 from current operations. 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					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	$ 6,732,390	43	$ 6,286,385	47	$ 446,005	7
Operating grants and contributions	8,527,423	54	6,518,233	50	2,009,190	31
General revenues:						
Grants and contributions not restricted to specific programs	531,371	3	444,182	3	87,189	20
Investment earnings	77,784	-	27,985	-	49,799	178
Total revenues	15,868,968	100	13,276,785	100	2,592,183	
Expenses:						
Instruction	1,017,775	6	939,084	8	78,691	8
Instructional resources and media services	24,351	-	21,986	-	2,365	11
Curriculum and instructional staff development	9,606,218	59	6,114,743	52	3,491,475	57
School leadership	40,177	-	40,203	-	(26)	-
General administration	957,278	6	742,576	6	214,702	29
Plant maintenance and operations	1,056,201	7	979,798	8	76,403	8
Data processing services	2,258,409	14	2,219,993	19	38,416	2
Community services	-	-	8,767	-	(8,767)	(100)
School district administrative support services	1,071,955	7	827,724	7	244,231	30
Payments related to shared service arrangements	124,559	1	-	-	124,559	100
Total expenses	16,156,923	100	11,894,874	100	4,262,049	
Change in net position	(287,955)		1,381,911		(1,669,866)	
Net position - beginning	(2,375,374)		3,797,439		(6,172,813)	
Prior period adjustment - implement GASB 75 for OPEB	-		(7,554,724)		7,554,724	
Net position - beginning, as restated	(2,375,374)		(3,757,285)		1,381,911	
Net position - ending	$ (2,663,329)		$ (2,375,374)		$ (287,955)	

Revenues, aggregating $15,868,968, were generated primarily from two sources. Charges for services $6,732,390 represent 43 percent of total revenues, while grants and contributions (including those not restricted for program-specific use as well as for general operations) totaling $9,058,794, represent 57 percent of total revenues. The remaining investment earnings were less than one percent. The most significant change in revenues was an increase in operating grants and contributions of $2,009,190, primarily the result of changes in on-behalf OPEB revenue.

The primary functional expenses of the Center are *Curriculum and Staff Development* $9,606,218, which represents 59 percent of total expenses, and *Data Processing Services* $2,258,409, which represents 14 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 pension and OPEB.

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 $4,488,175, an increase of $637,554 from the preceding year. 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 $2,686,816, while total fund balance was $3,911,594. 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 44 percent of total general fund expenditures, while total fund balance represents 64 percent of that same total. The fund balance of the general fund increased $484,569 during the year, which was primarily the result of increases in local and intermediate revenue exceeded various insignificant increases in functional expenditures.

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 2018-19 were $9,025,517. Fund balance at year-end for the special revenue fund was $576,581.

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.

There were no significant variations between final budget and actual results.

Capital Assets and Long-term Liabilities

Capital Assets. The Center's investment in capital assets for its governmental activities as of August 31, 2019, amounts to $877,145 (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 $111,506, primarily due to depreciation.

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

	Governmental Activities					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Building leasehold improvements	$ 374,022	43	$ 486,229	49	$ (112,207)	(23)
Furniture and equipment	503,123	57	502,422	51	701	-
Totals	$ 877,145	100	$ 988,651	100	$ (111,506)	

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 financial statements as per 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					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Notes payable	$ 24,676	0	$ 52,556	1	$ (27,880)	(53)
Compensated absences	284,089	3	264,123	4	19,966	8
Net pension liability	4,373,857	41	2,190,407	32	2,183,450	100
Net OPEB liability	5,963,855	56	4,308,383	63	1,655,472	38
Totals	$ 10,646,477	100	$ 6,815,469	100	$ 3,831,008	

The Center's total long-term liabilities increased by $3,831,008 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 per 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 2019-20 was adopted in August 2019, with amounts available for appropriation in the amount of $6,808,298, a decrease of 5% from the final 2018-19 budget of $7,133,747. Estimated revenue will be funded from 84% local sources, 12% from state sources, and 4% from federal sources. Total estimated expenditures for the 2019-20 general fund budget was approved at $6,750,210, a slight decrease from the final 2018-19 budget. The largest amount of the expenditure budget will be expended on curriculum and instructional staff development, general administration, data processing and school district administrative support for its clients. These amounts make-up approximately 83% 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 **Exhibit A-1**

Statement of Net Position

August 31, 2019

Data Control Codes		1 Primary Government Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	$ 3,653,614
1240	Due from other governments	925,849
1290	Other receivables	199,424
1410	Prepaid items	88,712
	Capital assets, net of accumulated depreciated:	
1520	Building leasehold improvements	374,022
1530	Furniture and equipment	503,123
1000	Total assets	5,744,744
	DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred outflows - pension	3,071,631
1706	Deferred outflows - OPEB	1,608,362
1700	Total deferred outflows of resources	4,679,993
	LIABILITIES	
2150	Payroll deductions and withholdings	279
2160	Accrued wages payable	50,758
2180	Due to other governments	6,933
2200	Accrued liabilities	25,346
2300	Unearned revenue	232,759
	Noncurrent liabilities:	
2501	Due within one year	308,765
2540	Net pension liabilities	4,373,857
2545	Net OPEB liabilities	5,963,855
2000	Total liabilities	10,962,552
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred inflows - pension	239,600
2606	Deferred inflows - OPEB	1,885,914
2600	Total deferred inflows of resources	2,125,514
	NET POSITION	
3200	Net investment in capital assets	852,469
3820	Restricted for grants	568,495
3900	Unrestricted (deficit)	(4,084,293)
3000	**TOTAL NET POSITION (DEFICIT)**	$ (2,663,329)

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

Region 5 Education Service Center **Exhibit B-1**

Statement of Activities

For the Fiscal Year Ended August 31, 2019

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues: Charges for Services	4 Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
	PRIMARY GOVERNMENT				
	Governmental activities:				
0011	Instruction	$ 1,017,775	$ 842,658	$ 155,228	$ (19,889)
0012	Instructional resources and media services	24,351	-	16,543	(7,808)
0013	Curriculum and instructional staff development	9,606,218	1,554,575	7,222,222	(829,421)
0023	School leadership	40,177	46,174	-	5,997
0041	General administration	957,278	847,666	367,958	258,346
0051	Plant maintenance and operations	1,056,201	500,534	304,376	(251,291)
0053	Data processing services	2,258,409	1,898,795	256,917	(102,697)
0062	School district administrative support services	1,071,955	1,041,988	79,620	49,653
0093	Payments related to shared services arrangement	124,559	-	124,559	-
TG	Total governmental activities	16,156,923	6,732,390	8,527,423	(897,110)
TP	**TOTAL GOVERNMENTAL ACTIVITIES**	$ 16,156,923	$ 6,732,390	$ 8,527,423	(897,110)
	General revenues:				
GC	Grants and contributions not restricted to specific programs				531,371
IE	Investment earnings				77,784
TR	Total general revenues				609,155
CN	Change in net position				(287,955)
NB	Net position - beginning (deficit)				(2,375,374)
NE	**NET POSITION - ENDING (DEFICIT)**				$ (2,663,329)

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

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

Balance Sheet – Governmental Funds

August 31, 2019

Data Control Codes		199 General Fund	Special Revenue Fund	98 Total Governmental Funds
	ASSETS			
1110	Cash and cash equivalents	$ 3,528,061	$ 125,553	$ 3,653,614
1240	Due from other governments	31,558	894,291	925,849
1260	Due from other funds	861,075	662,234	1,523,309
1290	Other receivables	194,416	2,208	196,624
1410	Prepaid items	9,778	8,086	17,864
1000	Total assets	4,624,888	1,692,372	6,317,260
1000a	**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**	$ 4,624,888	$ 1,692,372	$ 6,317,260
	LIABILITIES			
2150	Payroll deductions and withholdings	$ 279	$ -	$ 279
2160	Accrued wages payable	12,840	37,477	50,317
2170	Due to other funds	662,234	851,720	1,513,954
2180	Due to other governments	6,933	-	6,933
2200	Accrued liabilities	24,843	-	24,843
2300	Unearned revenue	6,165	226,594	232,759
2000	Total liabilities	713,294	1,115,791	1,829,085
	FUND BALANCES			
3430	Nonspendable - prepaid items	9,778	8,086	17,864
3450	Restricted - grants	-	568,495	568,495
3530	Committed - capital expenditures for equipment	375,000	-	375,000
3545	Committed - other	190,000	-	190,000
3590	Assigned - other	650,000	-	650,000
3600	Unassigned	2,686,816	-	2,686,816
3000	Total fund balances	3,911,594	576,581	4,488,175
4000	**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE**	$ 4,624,888	$ 1,692,372	$ 6,317,260

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

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Region 5 Education Service Center

Exhibit C-1R

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
August 31, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1)		$ 4,488,175
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	$ 1,282,500	
Accumulated depreciation of governmental capital assets, excluding internal service funds	(956,988)	325,512
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	$ (284,089)	
Net pension liability	(4,373,857)	
Net OPEB liability	(5,963,855)	(10,621,801)
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.		590,306
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.		3,071,631
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.		(239,600)
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.		1,608,362
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.		(1,885,914)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1)		$ (2,663,329)

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

Region 5 Education Service Center **Exhibit C-2**

Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended August 31, 2019

Data Control Codes		199 General Fund	Special Revenue Fund	98 Total Governmental Funds
	REVENUES			
5700	Local and intermediate revenues	$ 5,583,304	$ 3,115,146	$ 8,698,450
5800	State program revenues	770,933	1,067,066	1,837,999
5900	Federal program revenues	260,172	4,843,305	5,103,477
5020	Total revenues	6,614,409	9,025,517	15,639,926
	EXPENDITURES			
	Current:			
0011	Instruction	541,344	453,444	994,788
0012	Instructional resources and media services	-	16,543	16,543
0013	Curriculum and instructional staff development	1,741,486	6,810,209	8,551,695
0023	School leadership	-	39,913	39,913
0041	General administration	838,685	98,731	937,416
0051	Plant maintenance and operations	524,095	332,514	856,609
0053	Data processing services	1,269,285	923,262	2,192,547
0062	School district administrative support services	1,167,270	52,462	1,219,732
	Intergovernmental:			
0093	Payments related to shared service arrangements	-	124,559	124,559
6030	Total expenditures	6,082,165	8,851,637	14,933,802
1100	Excess (deficiency) of revenues over (under) expenditures	532,244	173,880	706,124
	OTHER FINANCING SOURCES (USES)			
8911	Transfers out	(47,675)	-	(47,675)
8949	Reimbursements to districts	-	(20,895)	(20,895)
7080	Total other financing sources (uses)	(47,675)	(20,895)	(68,570)
1200	Net change in fund balances	484,569	152,985	637,554
0100	Fund balances - beginning	3,427,025	423,596	3,850,621
3000	**FUND BALANCES - ENDING**	$ 3,911,594	$ 576,581	$ 4,488,175

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

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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, 2019

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2)		$ 637,554
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	$ 169,857	
Depreciation expense	(58,148)	111,709
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.		(19,966)
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)	$ 1,474,655	
Deferred inflows (increased) decreased	95,294	
Net pension liability (increased) decreased	(2,183,450)	(613,501)
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)	$ 1,524,637	
Deferred inflows (increased) decreased	(83,709)	
Net OPEB liability (increased) decreased	(1,655,472)	(214,544)
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.		(189,207)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1)		$ (287,955)

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

Region 5 Education Service Center **Exhibit D-1**

Statement of Net Position
Proprietary Fund
August 31, 2019

Data Control Codes		750 Internal Service Fund
	ASSETS	
	Current assets:	
1290	Other receivables	$ 2,800
1410	Prepaid items	70,848
	Total current assets	73,648
	Noncurrent assets:	
	Capital assets, net of accumulated depreciation:	
1520	Building leasehold improvements	1,122,067
1530	Furniture and equipment	961,142
1570	Accumulated depreciation	(1,531,576)
	Total noncurrent assets	551,633
1000	Total assets	625,281
	LIABILITIES	
	Current liabilities:	
2160	Accrued wages payable	441
2170	Due to other funds	9,355
2200	Accrued liabilities	503
	Total current liabilities	10,299
	Noncurrent liabilities:	
2501	Due within one year	24,676
	Total noncurrent liabilities	24,676
2000	Total liabilities	34,975
	NET POSITION	
3200	Net investment in capital assets	526,957
3900	Unrestricted	63,349
3000	**TOTAL NET POSITION**	$ 590,306

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

Region 5 Education Service Center **Exhibit D-2**

Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Fund
For the Fiscal Year Ended August 31, 2019

Data Control Codes		750 Internal Service Fund
	OPERATING REVENUES	
5700	Local and intermediate revenues	$ 1,808,555
5800	State program revenues	18,529
5020	Total operating revenues	1,827,084
	OPERATING EXPENSES	
6100	Payroll costs	289,014
6200	Professional and contracted services	1,283,452
6300	Supplies and materials	206,250
6400	Other operating costs	48,576
6499	Depreciation	234,706
6030	Total operating expenses	2,061,998
1100	Operating income (loss)	(234,914)
	NONOPERATING REVENUES (EXPENSES)	
6500	Interest expense	(1,968)
7080	Total nonoperating revenue (expenses)	(1,968)
	Income (loss) before transfers	(236,882)
7915	Transfers in	47,675
1200	Change in net position	(189,207)
0100	Net position - beginning	779,513
3000	**NET POSITION - ENDING**	$ 590,306

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

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

Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended August 31, 2019

	750 Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services	$ 1,808,262
Payments to employees for services	(270,329)
Payments to suppliers for goods or services	(1,544,269)
Net cash used for operating activities	(6,336)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	47,675
Net cash provided by noncapital financing activities	47,675
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition or construction of capital assets	(11,491)
Principal paid on long-term debt	(27,880)
Interest paid on long-term debt	(1,968)
Net cash used for capital and related financing activities	(41,339)
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	$ (234,914)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities	
Depreciation	234,706
Decrease in other receivables	7,846
Increase in prepaid items	(6,494)
Increase in accrued wages payable	156
Decrease in due to other funds	(8,139)
Increase in accrued liabilities	503
NET CASH USED FOR OPERATING ACTIVITIES:	$ (6,336)

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

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.

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.

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:

Capital Asset Class	Lives
Building leasehold improvements	10 years
Furniture and equipment	5-10 years

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 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.

10. 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.

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 itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a 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.

Amounts in the assigned fund balance classification are intended to be used by the Center for specific purposes but do not meet the criteria to be classified as committed. The Board, has, by policy, authorized the Executive Director 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.

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.

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.

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.

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; 10) Public funds investment pools which meet the requirements of the PFIA.

For fiscal year 2019, 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, 2019, 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, 2019	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured at amortized cost:				
Investment pools:				
TexPool	$ 3,528,061	100%	38	AAAm*
Total	$ 3,528,061	100%		
Portfolio weighted average maturity			38	

*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.

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, 2019, the Center's depository bank's balances of $410,612 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, 2019 were $199,424. 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, 2019, is as follows:

Fund	Interfund Receivables	Interfund Payables
General fund	$ 861,075	$ 662,234
Special revenue fund	662,234	851,720
Internal service fund	-	9,355
Totals	$ 1,523,309	$ 1,523,309

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, 2019.

Fund	Transfers In	Transfers Out
General fund	$ -	$ 47,675
Internal service fund	47,675	-
Total	$ 47,675	$ 47,675

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, 2019 was as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Building leasehold improvements	$ 1,122,067	$ -	$ -	$ 1,122,067
Furniture and equipment	2,072,294	181,348	(10,000)	2,243,642
Total capital assets, being depreciated	3,194,361	181,348	(10,000)	3,365,709
Less accumulated depreciation for:				
Building leasehold improvements	(635,838)	(112,207)	-	(748,045)
Furniture and equipment	(1,569,872)	(180,647)	10,000	(1,740,519)
Total accumulated depreciation	(2,205,710)	(292,854)	10,000	(2,488,564)
Total capital assets, being depreciated, net	988,651	(111,506)	-	877,145
Governmental activities capital assets, net	$ 988,651	$ (111,506)	$ -	$ 877,145

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

	Governmental Activities
Governmental activities:	
11 Instruction	$ 3,718
12 Instructional resource and media services	7,737
13 Curriculum and instructional staff development	34,450
23 School leadership	149
41 General administration	3,504
51 Plant maintenance and operations	151,032
53 Data processing services	87,705
62 School district administrative support services	4,559
Total depreciation expense	$ 292,854

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, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Notes payable	$ 52,556	$ -	$ (27,880)	$ 24,676	$ 24,676
Compensated absences	264,123	354,830	(334,864)	284,089	284,089
Net pension liability	2,190,407	2,451,142	(267,692)	4,373,857	-
Net OPEB liability	4,308,383	1,737,870	(82,398)	5,963,855	-
Governmental activities long-term liabilities	$ 6,815,469	$ 4,543,842	$ (712,834)	$ 10,646,477	$ 308,765

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, 2019, was as follows:

Governmental Activities Description	Date of Issuance	Maturity Date	Interest Rate Payable	Amounts Original Issue	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Internal Service Fund:									
Technology equipment lease purchase	9/1/2016	9/1/2019	3.71%	$ 11,855	$ 4,096	$ -	$ (4,096)	$ -	$ -
Technology equipment lease purchase	9/1/2016	9/1/2020	3.75%	93,482	48,460	-	(23,784)	24,676	24,676
Total notes payable - Governmental activities					$ 52,556	$ -	$ (27,880)	$ 24,676	$ 24,676

Notes payable debt requirements as of August 31, 2019, are as follows:

Year Ending August 31,	Principal Value	Interest	Total Requirements
2020	$ 24,676	$ 924	$ 25,600
Totals	$ 24,676	$ 924	$ 25,600

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, 2019 are as follows:

Year Ending August 31,	Edison Plaza Partners, LLC	Other Operating Leases	Total Requirements
2020	$ 896,928	$ 27,848	$ 924,776
2021	919,350	18,872	938,222
2022	880,773	9,897	890,670
2023	240,000	3,299	243,299
Totals	$ 2,937,051	$ 59,916	$ 2,996,967

G. Other Committed and Other Assigned Fund Balance

Other committed fund balance in the general fund is comprised of $50,000 for retention incentives and $140,000 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 meeting room upgrades, $200,000 for Texas instructional leadership staffing, $45,000 for retirement and leave payments and $55,000 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	$ 5,429,373	$ 1,303,017	$ 6,732,390
Investment earnings	77,784	-	77,784
Donations and other	76,147	1,812,129	1,888,276
Totals	$ 5,583,304	$ 3,115,146	$ 8,698,450

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 Public Schools Risk Management (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, 2019, 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 pay 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, 2019, 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.

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/Homepage.aspx#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6597.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with five 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 five 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 the 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. Ad-hoc postemployment benefit changes, including ad hoc cost of living adjustments can be granted by the Texas Legislature as noted in the Plan Description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for plan fiscal years 2018 and 2019 would remain the same. Rates for such plan fiscal years are as follows:

	2019	2018	2017
Member	7.7%	7.7%	7.7%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/center	6.8%	6.8%	6.8%
Employers/center OASDI	1.5%	1.5%	1.5%

The contribution amounts for the Center's fiscal year 2019 are as follows:

Center contributions	$	242,087
Member contributions		468,938
NECE on-behalf contributions (state)		263,391

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 GAA.

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

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

In addition to the employer contributions listed above, there are two additional 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 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 state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions
The total pension liability in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Valuation date	August 31, 2017 rolled forward to August 31, 2018
Actuarial cost method	Individual Entry Age Normal
Asset valuation method	Market Value
Single discount rate	6.907%
Long-term expected rate	7.25%
Municipal bond rate as of August 2018	3.69%. 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

The actuarial methods and assumptions are based primarily on a study of actual experience for the three year period ending August 31, 2017 and adopted in July 2018.

Discount Rate

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. 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, 2018 are summarized below:

Asset Class	Target Allocation*	Long-term Expected Artihmetic Real Rate of Return	Expected Contribution to Long-term Portfolio Returns
Global equity:			
U.S.	18.00%	5.70%	1.04%
Non-U.S. developed	13.00%	6.90%	0.90%
Emerging markets	9.00%	8.95%	0.80%
Directional hedge funds	4.00%	3.53%	0.14%
Private equity	13.00%	10.18%	1.32%
Stable value:			
U.S. treasuries	11.00%	1.11%	0.12%
Absolute return	0.00%	0.00%	0.00%
Stable value hedge funds	4.00%	3.09%	0.12%
Cash	1.00%	(0.3%)	0.00%
Real return:			
Global inflation linked bonds	3.00%	0.70%	0.02%
Real assets	14.00%	5.21%	0.73%
Energy and natural resources	5.00%	7.48%	0.37%
Commodities	0.00%	0.00%	0.00%
Risk parity:			
Risk parity	5.00%	3.70%	0.18%
Inflation expectation			2.30%
Volatility drag**			(0.79%)
Totals	100.00%		7.25%

* Target allocations are based on the FY2016 policy model

** The Expected Contribution to Long-term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis

The following table presents the Center's proportionate share of net pension liability for TRS calculated using the discount rate of 6.907%, as well as the Center's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1% lower or 1% higher than the current rate:

1% Decrease (5.907%)	Current Discount Rate (6.907%)	1% Increase (7.907%)
$ 6,601,199	$ 4,373,857	$ 2,570,691

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

At August 31, 2019, the Center reported a liability of $4,373,857 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	$ 4,373,857
State's proportionate share of the net pension liability associated with the Center	4,195,877
Total	$ 8,569,734

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as August 31, 2017 rolled forward to August 31, 2018. 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, 2017 through August 31, 2018.

At August 31, 2018, the employer's proportion of the net pension liability was 0.0079463%, which was an increase of 0.0010959% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation

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

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0% to 7.25%.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

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

For the fiscal year ended August 31, 2019, the Center recognized total pension expense of $1,270,868 and revenue of $415,280 for support provided by the State.

At August 31, 2019, the Center reported deferred outflows of resources for contributions made after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 27,263	$ 107,317
Changes of assumptions	1,576,986	49,281
Difference between projected and actual earnings on pension plan investments	-	82,991
Changes in proportion and differences between Center contributions and proportionate share of contributions (cost-sharing plan)	1,225,295	11
Center's contributions paid after measurement date	242,087	-
Totals	$ 3,071,631	$ 239,600

$242,087 reported as deferred outflows of resources related to pensions resulting from the Center's contributions paid subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended August 31, 2020. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending August 31,	
2020	$ 696,473
2021	521,821
2022	459,286
2023	366,004
2024	335,808
Thereafter	210,552
Totals	$ 2,589,944

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 Postemployment 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/Homepage.aspx#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6597.

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. 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 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. There are no automatic postemployment benefit changes; including automatic cost of living adjustments.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

TRS-Care Monthly Plan Premium Rates
Effective January 1, 2018-December 31, 2018

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

* or surviving spouse

Change of Benefit Terms since the Prior Measurement Date

The 85th Legislature, Regular Session, passed several statutory changes effective September 1, 2017 that affected TRS plans. These changes include:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retirees reach 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute $200 per month towards their health insurance premiums.

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 based upon public school district 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. The following table shows contributions to the TRS-Care plan by type of contributor.

	2019	2018	2017
Active employee	0.65%	0.65%	0.65%
Non-employer contribution entity (state)	1.25%	1.25%	1.00%
Employers/Center	0.75%	0.75%	0.55%
Federal/private funding remitted by employers	1.25%	1.25%	1.00%

The contribution amounts for the Center's fiscal year 2019 are as follows:

Center contributions	$	74,398
Member contributions		39,584
NECE on-behalf contributions (state)		47,403

In addition, the State of Texas contributed $24,121, $22,684, and $26,693 in 2019, 2018, and 2017, 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 to TRS-Care, a monthly surcharge of $535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of $182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional $212 million in one-time, supplemental funding for the fiscal year 2018-19 biennium to continue to support the program. This was also received in fiscal year 2018 bringing the total appropriations received in fiscal year 2018 to $394.6 million.

Actuarial Assumptions

A change was made in the measurement date of the total OPEB liability for this fiscal year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total OPEB liability to August 31, 2018. This is the first year using the roll forward procedures.

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality and most of the economic assumptions used in this OPEB valuation were identical to those used in the respective TRS pension valuation.

The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The Post-retirement mortality rates 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 scale (U-MP).

The following assumptions used for members of TRS-Care are identical to the assumptions employed in the August 31, 2017 TRS annual pension actuarial valuation that was rolled forward to August 31, 2018:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability	

Additional Actuarial Methods and Assumptions:

Valuation date	August 31, 2017, rolled forward to August 31, 2018
Actuarial cost method	Individual Entry Age Normal
Inflation	2.30%
Discount rate	3.69%. Sourced from fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20- Year Municipal GO AA Index" as of August 31, 2018.
Aging factors	Based on plan specific experience
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected annual salary increases	3.05% to 9.05%, including inflation
Healthcare trend rates	Initial medical trend rates of 107.74 percent and 9.00 percent for Medicare retirees and an initial medical trend rate of 6.75 percent for non-Medicare retirees. Initial prescription drug trend rate of 11.00 percent for all retirees. The first year trend increase for the Medicare Advantage (medical) premiums reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.
Ad hoc postemployment benefit changes	None

In this valuation, the impact of the Cadillac Tax 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 2.50%.
- 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 3.69% was used to measure the total OPEB liability. There was an increase of 0.27% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability

Discount Rate

The following table presents the Center's proportionate share of net OPEB liability for TRS-Care if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.69%).

Sensitivity of the Net OPEB Liability
to the Single Discount Rate Assumptions

1% Decrease (2.69%)	Current Single Discount Rate (3.69%)	1% Increase (4.69%)
$ 7,099,037	$ 5,963,855	$ 5,065,853

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 healthcare cost trend rate:

Sensitivity of the Net OPEB Liability
to the Healthcare Cost Trend Rate Assumptions

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
$ 4,953,079	$ 5,963,855	$ 7,295,069

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

At August 31, 2019, the Center reported a liability of $5,963,855 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 were as follows:

Center's proportionate share of the net OPEB liability	$ 5,963,855
State's proportionate share of the net OPEB liability associated with the District	3,488,414
Total	$ 9,452,269

The net OPEB liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net OPEB liability was 0.0119442%, which was an increase of 0.0020368% from its proportion measured as of August 31, 2017.

Changes since the Prior Actuarial Valuation

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

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This changed increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability $2.3 billion.
- Change of benefit terms since the prior measurement date made effective September 1, 2017 by the 85th Texas Legislature.

For the year ended August 31, 2019, the Center recognized total OPEB expense of $415,830, and revenue of $126,888 for support provided by the State.

At August 31, 2019, the Center reported the Center's contributions paid after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other postemployment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 316,480	$ 94,118
Changes of assumptions	99,521	1,791,796
Net difference between projected and actual earnings on OPEB investments	1,043	-
Changes in proportion and differences between Center contributions and proportionate share of contributions (cost-sharing plan)	1,116,920	-
Center contributions paid after measurement date	74,398	-
Totals	$ 1,608,362	$ 1,885,914

$74,398 reported as deferred outflows of resources related to OPEB resulting from Center contributions paid subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the fiscal year ended August 31, 2020. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to OPEB will be recognized in OPEB expense as follows:

Year Ending August 31,	
2020	$ (95,779)
2021	(95,779)
2022	(95,779)
2023	(95,977)
2024	(96,089)
Thereafter	127,453
Total	$ (351,950)

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
Bob Hope School	123807	$ 44,921	$ 18,058	$ -
Lumberton ISD	100907	-	-	6,243
Orangefield ISD	181905	-	-	2,905
Port Neches-Groves ISD	123908	663	-	-
Silsbee ISD	100904	-	-	3,777
Woodville ISD	229903	3,283	-	4,648
Nederland ISD	123905	705	-	-
Little Cypress-Mauricevlile CISD	181908	-	-	5,907
Burkeville ISD	176901	-	4,287	97
Ehrhart School	123805	-	-	18,786
Evadale ISD	121906	-	4,595	775
Hardin-Jefferson ISD	100905	-	-	8,812
Hull-Daisetta ISD	146905	-	-	1,356
Kirbyville CISD	121905	-	-	3,680
Kountze ISD	100903	-	-	3,099
Vidor ISD	181907	-	-	6,294
Warren ISD	229904	-	-	1,259
West Sabine ISD	202905	-	-	291
Buna ISD	121903	-	-	968
Deweyville ISD	176903	-	7,094	-
High Island ISD	084903	-	2,110	-
Hamshire-Fannett ISD	123914	-	17,877	8,231
Sabine Pass ISD	123913	-	6,163	-
West Hardin County CISD	100908	-	4,478	-
Tekoa Academy of Accelerated Studies	123803	-	7,365	-
Beaumont ISD	123910	4,431	-	-
Spurger ISD	229905	-	-	387
Unallocated		6,105	-	-
Totals		$ 60,108	$ 72,027	$ 77,515

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.

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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, 2019

Data Control Codes		1 Budgeted Amounts Original	2 Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and intermediate revenues	$ 5,033,853	$ 6,067,010	$ 5,583,304	$ (483,706)
5800	State program revenues	773,073	801,737	770,933	(30,804)
5900	Federal program revenues	292,000	285,000	260,172	(24,828)
5020	Total revenues	6,098,926	7,153,747	6,614,409	(539,338)
	EXPENDITURES				
	Current:				
0011	Instruction	552,310	544,831	541,344	3,487
0013	Curriculum and instructional staff development	1,763,453	2,038,233	1,741,486	296,747
0041	General administration	851,697	902,935	838,685	64,250
0051	Plant maintenance and operations	489,560	528,914	524,095	4,819
0053	Data processing services	1,410,567	1,361,704	1,269,285	92,419
0062	School district administrative support services	961,964	1,364,952	1,167,270	197,682
6030	Total expenditures	6,029,551	6,741,569	6,082,165	659,404
1100	Excess (deficiency) of revenues over (under) expenditures	69,375	412,178	532,244	120,066
	OTHER FINANCING SOURCES (USES)				
8911	Transfers out	(135,000)	(143,500)	(47,675)	95,825
7080	Total other financing sources (uses)	(135,000)	(143,500)	(47,675)	95,825
1200	Net change in fund balance	(65,625)	268,678	484,569	215,891
0100	Fund balance - beginning	3,427,025	3,427,025	3,427,025	-
3000	**FUND BALANCES - ENDING**	$ 3,361,400	$ 3,695,703	$ 3,911,594	$ 215,891

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 Five Fiscal Years*

	2019	2018
Center's proportion of the net pension liability	0.0079463%	0.0068505%
Center's proportionate share of the net pension liability	$ 4,373,857	$ 2,190,407
State's proportionate share of the net pension liability associated with the Center	4,195,877	2,393,763
TOTALS	$ 8,569,734	$ 4,584,170
Center's covered payroll	$ 6,232,574	$ 5,659,586
Center's proportionate share of the net pension liability as a percentage of its covered payroll	70.18%	38.70%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	82.17%

* 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.

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

Exhibit F-2

2017	2016	2015
0.0064123%	0.0068271%	0.0004469%
$ 2,423,125	$ 2,413,289	$ 119,374
2,747,687	2,714,559	3,348,287
$ 5,170,812	$ 5,127,848	$ 3,467,661
$ 5,206,131	$ 5,161,940	$ 4,782,127
46.54%	46.75%	2.50%
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 Five Fiscal Years*

	2019	2018
Contractually required contributions	$ 242,087	$ 274,043
Contributions in relation to the contractually required contributions	(242,087)	(274,043)
CONTRIBUTION DEFICIENCY (EXCESS)	$ -	$ -
Center's covered payroll	$ 6,090,091	$ 6,232,574
Contributions as a percentage of covered payroll	3.98%	4.40%

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

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

Exhibit F-3

2017	2016	2015
$ 224,518	$ 203,736	$ 202,154
(224,518)	(203,736)	(202,154)
$ -	$ -	$ -
$ 5,659,586	$ 5,206,131	$ 5,161,940
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
Last Two Fiscal Years*

	2019	2018
Center's proportion of the net OPEB liability	0.0119442%	0.0099075%
Center's proportionate share of the net OPEB liability	$ 5,963,855	$ 4,308,383
State's proportionate share of the net OPEB liability associated with the Center	3,488,414	3,012,623
TOTALS	$ 9,452,269	$ 7,321,006
Center's covered payroll	$ 6,232,574	$ 5,659,586
Center's proportionate share of the net OPEB liability as a percentage of its covered payroll	95.69%	76.13%
Plan fiduciary net position as a percentage of the total OPEB liability	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.

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

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

Schedule of the Center's Contributions to the
Teacher Retirement System of Texas OPEB Plan
Last Two Fiscal Years*

	2019	2018
Contractually required contributions	$ 74,398	$ 83,052
Contributions in relation to the contractually required contributions	(74,398)	(83,052)
CONTRIBUTION DEFICIENCY (EXCESS)	$ -	$ -
Center's covered payroll	$ 6,090,091	$ 6,232,574
Contributions as a percentage of covered payroll	1.22%	1.33%

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

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

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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.

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Supplementary Information

Region 5 Education Service Center **Exhibit G-1**

Combining Balance Sheet
Special Revenue Fund
August 31, 2019

Data Control Codes		State and Federal Programs	Hardin Co JJAEP	Jefferson Co JJAEP	Locally Funded Programs	Total Special Revenue Fund (See Exhibit C-1)
	ASSETS					
1110	Cash and cash equivalents	$ -	$ -	$ 125,553	$ -	$ 125,553
1240	Due from other governments	876,771	-	-	17,520	894,291
1260	Due from other funds	-	229,288	246,496	186,450	662,234
1290	Other receivables	-	-	-	2,208	2,208
1410	Prepaid items	-	-	-	8,086	8,086
1000	**TOTAL ASSETS**	$ 876,771	$ 229,288	$ 372,049	$ 214,264	$ 1,692,372
	LIABILITIES					
2160	Accrued wages payable	$ 25,051	$ 4,024	$ 8,402	$ -	37,477
2170	Due to other funds	851,720	-	-	-	851,720
2300	Unearned revenue	-	118,450	107,527	617	226,594
2000	Total liabilities	876,771	122,474	115,929	617	1,115,791
	FUND BALANCES					
3430	Nonspendable - prepaid items	-	-	-	8,086	8,086
3450	Restricted - grant funds	-	106,814	256,120	205,561	568,495
3000	Total fund balances	-	106,814	256,120	213,647	576,581
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 876,771	$ 229,288	$ 372,049	$ 214,264	$ 1,692,372

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, 2019

Data Control Codes		State and Federal Programs	Hardin Co JJAEP	Jefferson Co JJAEP	Locally Funded Programs	Total Special Revenue Fund (See Exhibit C-2)
	REVENUES					
5700	Local and intermediate revenues	$ -	$ 75,660	$ 365,000	$ 2,674,486	$ 3,115,146
5800	State program revenues	1,023,083	-	11,064	32,919	1,067,066
5900	Federal program revenues	4,843,305	-	-	-	4,843,305
5020	Total revenues	5,866,388	75,660	376,064	2,707,405	9,025,517
	EXPENDITURES					
	Current:					
0011	Instruction	133,589	65,547	254,308	-	453,444
0012	Instructional resources and media services	16,543	-	-	-	16,543
0013	Curriculum and instructional staff development	4,981,580	-	-	1,828,629	6,810,209
0023	School leadership	-	-	39,913	-	39,913
0041	General administration	8,615	10,500	20,000	59,616	98,731
0051	Plant maintenance and operations	302,789	-	1,284	28,441	332,514
0053	Data processing services	225,356	-	-	697,906	923,262
0062	School district administrative support services	52,462	-	-	-	52,462
	Intergovernmental:					
0093	Payments related to shared service arrangements	124,559	-	-	-	124,559
6030	Total expenditures	5,845,493	76,047	315,505	2,614,592	8,851,637
1100	Excess (deficiency) of revenues over (under) expenditures	20,895	(387)	60,559	92,813	173,880
	OTHER FINANCING SOURCES (USES)					
8949	Reimbursements to districts	(20,895)	-	-	-	(20,895)
7080	Total other financing sources (uses)	(20,895)	-	-	-	(20,895)
1200	Net change in fund balances	-	(387)	60,559	92,813	152,985
0100	Fund balances - beginning	-	107,201	195,561	120,834	423,596
3000	**FUND BALANCES - ENDING**	$ -	$ 106,814	$ 256,120	$ 213,647	$ 576,581

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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 year ended August 31, 2019, 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 13, 2019.

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

Compliance and Other Matters

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

Weaver and Tidwell, L.L.P.
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The Board of Trustees of
Region 5 Education Service Center

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 13, 2019

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 year ended August 31, 2019. 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 year ended August 31, 2019.

Weaver and Tidwell, L.L.P.
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The Board of Trustees of
Region 5 Education Service Center

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 13, 2019

Region 5 Education Service Center
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended August 31, 2019

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?	No
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	Adult Basic Education 84.002A 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?	No

Section 2. Financial Statement Findings

None reported

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, 2019

Prior Year Findings

None reported.

Region 5 Education Service Center
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended August 31, 2019

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Texas Department of Agriculture:			
Education Service Center Child Nutrition	10.560	PO 551-8-13053	$ 40,515
Education Service Center Child Nutrition	10.560	PO 551-9-15612	391,346
Total Program 10.560			431,861
TOTAL U.S. DEPARTMENT OF AGRICULTURE			431,861
U.S. DEPARTMENT OF LABOR			
Passed Through Workforce Solutions of Southeast Texas:			
WIOA Cluster:			
Texas Industry Partnership Initiative	17.258	1818TIP000	77,379
Texas Industry Partnership Initiative	17.258	1819TIP000	8,974
Total Program 17.258			86,353
Total WIOA Cluster			86,353
TOTAL U.S. DEPARTMENT OF LABOR			86,353
U.S. DEPARTMENT OF EDUCATION			
Direct:			
School Leadership Program	84.363A	U363A130077 - 16	183,866
Passed Through Texas Workforce Commission:			
Performance Quality Improvement Award	84.002A	1818PQI000	27,739
Performance Quality Improvement Award	84.002A	1819PQI001	41,368
Adult Basic Education (ABE) - Federal	84.002A	1818ALA000	769,348
Adult Basic Education (ABE) - Federal	84.002A	1818ALAB00	128,236
Total Program 84.002A			966,691
Charting the Course	84.126	3018VRS230	24,472
Passed Through Texas Education Agency:			
ESEA Title I, Priority School Support	84.010A	196101407110005	333,133
ESEA Title I, Part A	84.010A	196101197110005	42,629
ESC Tx Instructional Leadership	84.010A	196101457110005	26,809
Total Program 84.010A			402,571
ESEA Title I, Part C - Migrant Education	84.011A	196150027110005	338,878
ESEA Title I, Part C - Migrant Education	84.011A	18615001181950	3,512
ESEA Title I, Part C - Migrant Education	84.011A	19615001181950	60,588
Total Program 84.011A			402,978
Special Education Cluster (IDEA):			
IDEA - Part B, Discretionary	84.027A	196600227110005	55,432
IDEA - Part B, Discretionary	84.027A	196600567110005	824,492
IDEA - Part B, Discretionary	84.027A	196600587110005	103,828
IDEA - Part B, Discretionary	84.027A	196600597110005	31,047
IDEA - Part B, Discretionary	84.027A	196600657110005	148,884
IDEA - Part B, Discretionary	84.027A	196600571819506681	6,616
IDEA - Part B, Discretionary	84.027A	196600571819506682	23,997
IDEA - Part B, Discretionary	84.027A	186600857110005	14,269
Total Program 84.027A			1,208,565
IDEA - Part B, Preschool	84.173A	196610227110005	145,935
Total Special Education Cluster (IDEA)			1,354,500

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

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Total Federal Expenditures
ESC CTE Leadership	84.048A	194200097110005	17,642
CTE PBMD / Admin for ESC	84.048A	194200107110005	41,573
CTE Basic Grant - SSA	84.048A	19420006181950	74,761
Total Program 84.048A			133,976
Title III, Part A - English Language Acquisition	84.365A	196710027110005	39,065
Title III, Part A - English Language Acquisition - SSA	84.365A	19671001181950	79,041
Total Program 84.365A			118,106
Equity Plan Support	84.367A	176945647110005	1,199
Equity Plan Support	84.367A	186945647110005	5,922
Principal Preparation Grants	84.367A	186945677110017	11,955
Instructional Leadership Management	84.367A	186945657110002	66,925
ESC TX Instr Leadership T2A	84.367A	196945707110005	12,187
Cohort Management Grant	84.367A	196945657110002	5,359
Total Program 84.367A			103,547
Restart Hurricane Recovery	84.938A	18511701181950	176,429
ESC Title 1, Part A	84.999	196000117110005	52,084
TOTAL U.S. DEPARTMENT OF EDUCATION			3,919,220
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Texas Workforce Commission:			
TANF Cluster:			
Temporary Assistance for Needy Families (TANF)	93.558	1818ALA000	91,149
Temporary Assistance for Needy Families (TANF)	93.558	1818ALAB00	11,227
Total TANF Cluster			102,376
Passed Through Texas Education Agency:			
AWARE Texas	93.243	194700017110005	205,592
CCDF Cluster:			
Regional Early Childhood Education Support Specialist	93.575	193928017110003	54,015
Passed Through The University of Texas Health Science:			
Texas School Ready!	93.575	UTHSC 0000829445	117,637
Total Program 93.575			171,652
Total CCDF Cluster			377,244
Passed Through Texas Health and Human Services Commission:			
FEMA Regular Services Program (RSP) Grant	93.982	HHS000101300001	186,423
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			666,043
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 5,103,477

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 **Exhibit L-1**

Schedule of Required Responses to Selected
School FIRST Indicators (Unaudited)
For the Fiscal Year Ended August 31, 2019

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the education service center make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the education service center not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	$ -
SF11	Net Pension Assets (1920) at fiscal year-end.	$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end.	$ 4,373,857