



Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2017

Students | Service | Solutions
Experience the Power of 1Ⓢ

EDUCATION SERVICE CENTER REGION 10

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

AUGUST 31, 2017

**Prepared By
Financial Services**

**Education Service Center Region 10
400 East Spring Valley Road
Richardson, Texas 75081**

EDUCATION SERVICE CENTER REGION 10
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED AUGUST 31, 2017

TABLE OF CONTENTS

<u>Exhibit Number</u>		<u>Page Number</u>
<u>INTRODUCTORY SECTION</u>		
	Certificate of Board	i
	Principal Officers – Board of Directors	ii
	Organizational Chart	iii
	Letter of Transmittal	iv-xxii
	ASBO Certificate of Excellence – For the Year Ended August 31, 2016	xxiii
	GFOA Certificate of Achievement – For the Year Ended August 31, 2016	xxiv
<u>FINANCIAL SECTION</u>		
	Independent Auditor’s Report	1-3
	Management’s Discussion and Analysis (Required Supplementary Information)	4-14
<u>BASIC FINANCIAL STATEMENTS</u>		
<u>Government Wide Statements</u>		
A-1	Statement of Net Position	15
B-1	Statement of Activities	16-17
<u>Governmental Funds Financial Statements</u>		
C-1	Balance Sheet	18
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	20
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
<u>Proprietary Fund Financial Statements</u>		
D-1	Statement of Fund Net Position	22
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Position	23
D-3	Statement of Cash Flows	24
<u>Fiduciary Funds Financial Statements</u>		
E-1	Statement of Fiduciary Net Position	25
E-2	Statement of Changes in Fiduciary Net Position	26
	<u>Notes to the Financial Statements</u>	27-48
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>		
F-1	Budgetary Comparison Schedule – General Fund	49
F-2	Budgetary Comparison Schedule – Special Revenue Fund	50
F-3	Schedule of Proportionate Share of the Net Pension Liability – Teacher Retirement System	51
F-4	Schedule of Contributions – Teacher Retirement System	52
	Notes to Required Supplementary Information	53

EDUCATION SERVICE CENTER REGION 10
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED AUGUST 31, 2017

TABLE OF CONTENTS (continued)

<u>Exhibit Number</u>		<u>Page Number</u>
<u>INDIVIDUAL FUND INFORMATION</u>		
G-1	Budgetary Comparison Schedule – Debt Service Fund	54
G-2	Budgetary Comparison Schedule – Capital Projects Fund	55
G-3	Statement of Changes in Assets and Liabilities – Agency Fund	56
<u>STATISTICAL SECTION (UNAUDITED)</u>		
	Statistical Section Narrative	57
H-1	Net Position – Ten Year Data	58-59
H-2	Change in Net Position – Ten Year Data	60-61
H-3	Fund Balance – Governmental Funds – Ten Year Data	62-63
H-4	Change in Fund Balance – Governmental Funds – Ten Year Data	64-65
H-5	Program Revenue – Charges for Services – Ten Year Data	66-67
H-6	Schedule of Outstanding Debt – Ten Year Data	68-69
H-7	Demographic Data – Ten Year Data	70-71
H-8	Demographic Data by Service Center as of August 31, 2017	72
H-9	Largest Dallas-Ft. Worth Major Employers - Nine Year Data	73-74
H-10	Use of Capital Assets Used in the Operation of Governmental Activities	75
H-11	Full-Time Equivalent by Function – Ten Year Data	76-77
H-12	Demand or Level of Service Indicators – Ten Year Data	78-79
<u>FEDERAL AWARDS SECTION</u>		
	Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	80-81
	Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	82-83
I-1	Schedule of Expenditures of Federal Awards	84-85
	Notes to Schedule of Expenditures of Federal Awards	86
	Schedule of Findings and Questioned Costs	87
	Summary Schedule of Prior Audit Findings	88
	Corrective Action Plan	89

INTRODUCTORY
SECTION

FOR THE FISCAL YEAR ENDED
AUGUST 31, 2017

CERTIFICATE OF BOARD

Education Service Center Region 10 Dallas 057-950
Name of Service Center County Co.-Dist. Number

We, the undersigned, certify that the attached comprehensive annual financial report of Education Service Center Region 10 was reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the Board of Directors of Education Service Center Region 10 on the 20th day of December 2017.



Signature of Board Secretary



Signature of Board President

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

EDUCATION SERVICE CENTER REGION 10
PRINCIPAL OFFICERS – BOARD OF DIRECTORS
FOR THE YEAR ENDED AUGUST 31, 2017

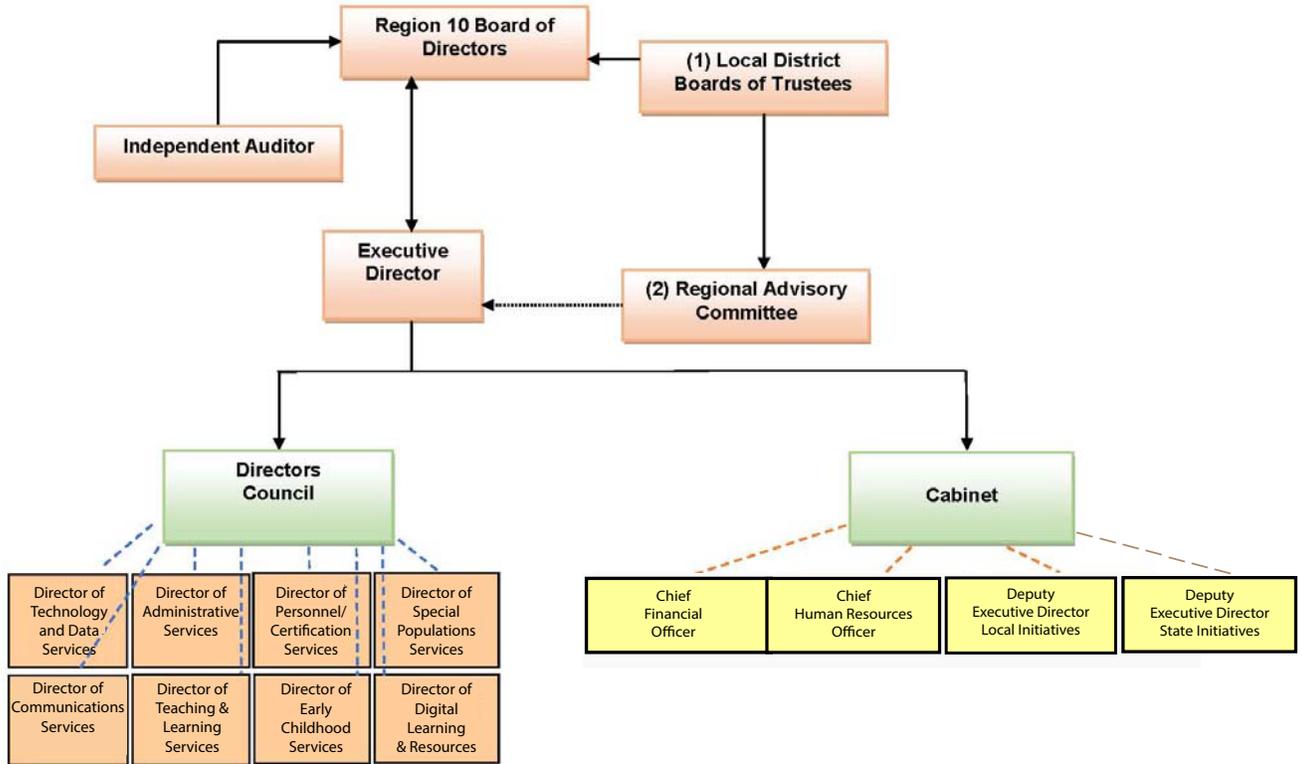
Board of Directors:

Mack B. Pierson, Chairman
Steve Overton, Vice Chairman
Elvia Flores, Secretary
Dr. Bruce Wood
Dr. David Foerch
Early B. Milstead
Charles Williams
Eric Reeves

Executive Director:

Dr. Gordon Taylor

REGION 10 EDUCATION SERVICE CENTER ORGANIZATIONAL CHART



- (1) Members of local boards of trustees elect Region 10 Board of Directors, approve district participation in programs, and advise the regional board regarding effectiveness of center management and services.
- (2) Each local board of trustees appoints a representative to the Regional Advisory Committee.



December 20, 2017

Board of Directors
Education Service Center Region 10
400 E. Spring Valley Road
Richardson, TX 75081-5101

Dear Board Members, Citizens and Other Stakeholders:

The enclosed documents represent the Comprehensive Annual Financial Report (CAFR) of the Education Service Center Region 10 (ESC, the Center or Region 10) for the fiscal year ending August 31, 2017. This report was prepared by Financial Services. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Executive Director and the Chief Financial Officer.

The data presented in this report is accurate in all material respects and is presented in a manner designed to fairly describe the financial position and condition of the various funds and account groups of the Center. All disclosures necessary to enable the reader to gain an understanding of the Center's activities have been included. Further discussion of the Center's financial position is contained in the Management's Discussion and Analysis section of this CAFR.

Report Format

The CAFR is presented in four major sections:

1. The introductory section, which is unaudited, includes this letter of transmittal, a list of the Center's principal officials, Certificate of the Board and an organizational chart.
2. The financial section includes the independent auditor's report on the financial statements, management's discussion and analysis, the basic financial statements, and required supplementary information.
3. The unaudited statistical section includes selected financial and demographic information presented on a multi-year basis.
4. The federal award section includes the schedule of expenditures of federal awards and notes to the federal awards.

The Reporting Entity and Purposes

The Center is a political subdivision of the State of Texas, which was established by the Texas Legislature under §TEC 8.001, along with nineteen other education service centers across Texas. Chapter 8 of the Texas Education Code, as enacted by the 74th Texas Legislature in 1995 and amended by the 75th, 76th, and 78th thru 84th Texas Legislatures, also specifies the following purposes for all education service centers:

Regional Education Service Centers shall:

- o **Assist school districts in improving student performance in each region of the system;**
- o **Enable school districts to operate more efficiently and economically; and**
- o **Implement initiatives assigned by the legislature or the commissioner.**

The Center, like all other ESCs, does not possess tax levying or bonding authority. Instead, the ESCs rely on legislative appropriations, local fees for services, federal/state grants, and contracts for funding. The Center generates approximately one-third of its funding through fees from schools for products and services. In keeping with its mandates to assist districts to operate with economy and efficiency, the Center provides high quality, competitively priced services that are readily available at accessible rates to client districts and other patrons. The Center primarily serves public independent school districts and charter schools. Other clients may include private and parochial schools, governmental agencies, non-profit organizations, and professional associations. The products and services of the Center are client-driven in nature, allowing a rapid turn-around in delivery based upon client needs, timing and the availability of financial resources.

Mission Statement

In February 2016, the Center's Strategic Planning Steering Committee developed the following motto and mission statement for the Center:



Motto:

Students | Services | Solutions

The mission of Education Service Center Region 10 is to be a trusted, student-focused partner that serves the learning community through responsive, innovative educational solutions.

ESC Beliefs

The administration and staff of the Center firmly believe that:

1. Student success is our primary goal.
2. Every student deserves a quality education.
3. Service is based on trust and relationships.
4. We can impact positive change.
5. We must take risks to transform schools.
6. We must be leaders for best practice, innovation, and lifelong learning.
7. People matter.

ESC Parameters

1. We will put the needs of our students and districts first.
2. We will always ensure policies and practices support student, teacher and organizational success.
3. We will always give voice to our stakeholders in the design and implementation of initiatives.
4. We will respect and encourage others through our words, actions, and work.
5. We will ensure that all employees share in the beliefs of the Center.
6. We will view excellence and expertise as our standard performance measures.
7. We will positively embrace innovation and adapt to our ever changing world.

Strategic Plan Objectives

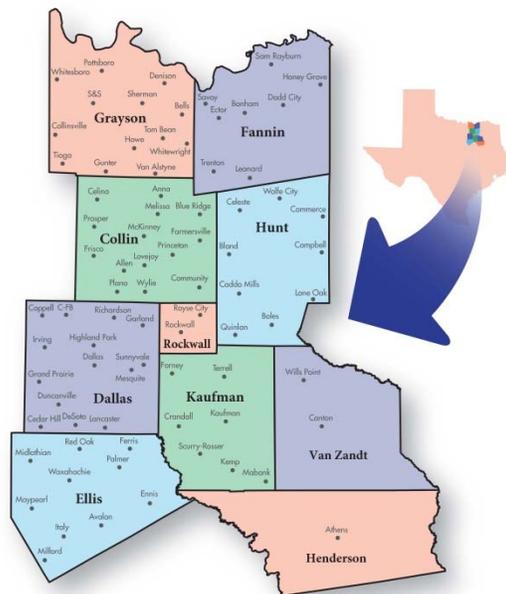
1. Relevant, Innovative Programs and Services
2. Employee Support, Development and Service Delivery
3. Addressing Underperforming Students and Institutions
4. Developing and Sustaining a Collaborative Organizational Culture
5. Enhancing Long-term Financial Viability
6. Facilities Design in the Era of Digital Professional Development Delivery

ESC History

In 1967, the Texas Legislature directed that the State Board of Education provide, by rules and regulations, for the establishment and operation of regional education service centers. Twenty regional service centers provide services to school districts. The centers are service organizations, not regulatory arms of the Texas Education Agency, and participation by schools in services of the centers is voluntary. As such, each center, including ESC Region 10, has independently developed services reflective of the unique qualities and concerns of its region in addition to providing State identified core services which meet regional and district specific client needs. ESC Region 10, along with its companion ESCs, is proud to be serving the students, educators and schools of Texas for its 50th consecutive year.

Region 10 Service Area

Students | Service | Solutions



 Region 10 ESC

Governance

The Center is governed by a lay board, which is elected by the trustees of the 80 public independent school districts. Additionally, an ad hoc, Commissioner-appointed, non-voting member meets with the Board to represent the interests of charter schools. The Center's Board of Directors approve policies regarding center management and operation, programs and services to be offered, and use of financial resources. Also, the Board is empowered to employ and dismiss an executive director subject to the approval of the Commissioner of Education. The Commissioner has broad responsibility and authority concerning the number and location of centers, regional boundaries, and the allocation of state and federal funds among centers. Three Board members represent Dallas County Schools, one Board member each represents Fannin/Hunt Counties, Collin/Rockwall Counties, Kaufman/Ellis/Van Zandt Counties and Grayson County. An appointed, non-voting Board member voices the interests of charter schools.

Service Area/Population Served

The Center serves an eight-plus county area in north central Texas, comprised of Collin, Dallas, Ellis, Fannin, Grayson, Hunt, Kaufman, Rockwall, and part of Van Zandt and Henderson counties. As the second largest ESC in Texas, the Center serves 80 school districts and 39 charter schools as ongoing clients. 844,896 students populate the region, which is 15.8% of the 5,359,127 students enrolled in Texas public schools in 2016-2017. The total of all personnel employed in the school systems of the Center's region in 2016-2017 was 104,087. This figure represents 55,501 teachers, 11,945 support staff positions (counselors, librarians, nurses, therapists, etc.), 4,421 administrators, 9,620 paraprofessionals (certified interpreter, educational aide), and 22,600 auxiliary staff (cafeteria, custodial, transportation, maintenance, etc.).

Staff Demographics

The Center employs 546 active staff members, of whom 392 are full-time, 12 are regular part-time and 142 are irregular part-time, and are comprised of 459 females and 87 males. The percentage of minority staff members is currently 49%. Approximately 42% of staff is professional personnel and 58% is support personnel of various types.

Facilities and Grounds

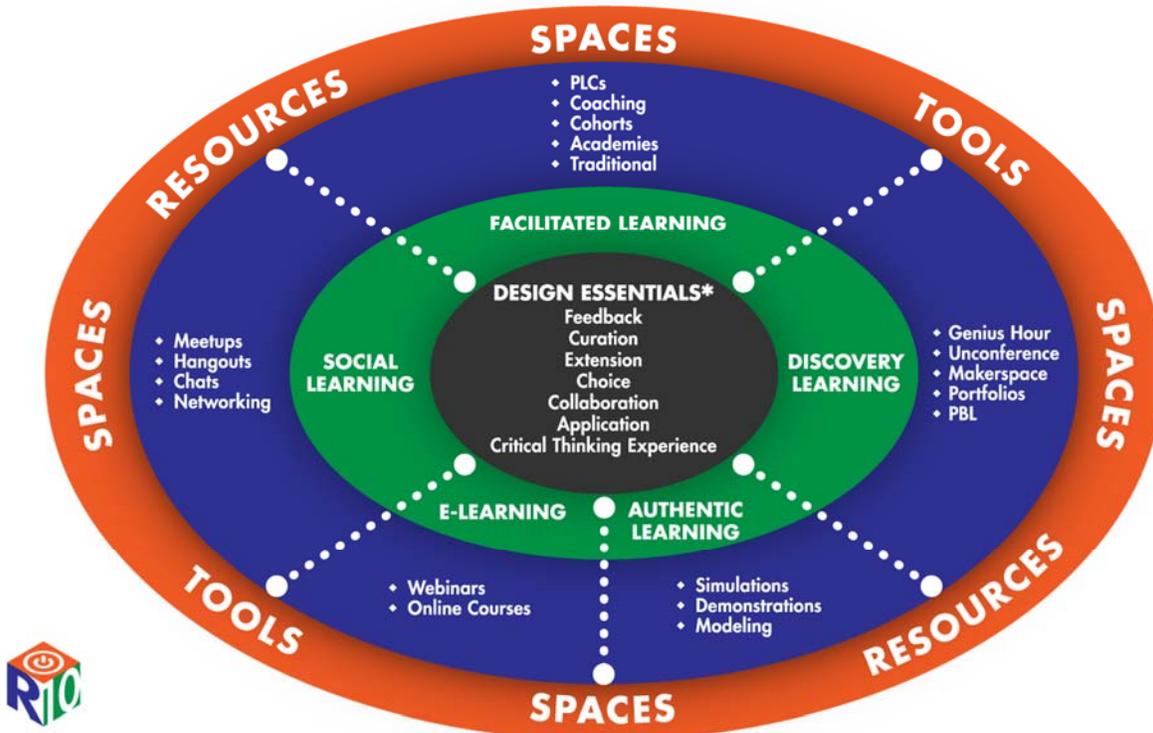
The Center is housed in three buildings located principally at 400 E. Spring Valley Road in Richardson, Texas. A 52,000 square foot Administration Building, purchased in 1970, is attached by breezeways to a 37,000 square foot Technology and Conference Center, constructed in 1993. One-half block away, at 904 Abrams, is the Abrams Building, the Center's newest structure, which was occupied in 2003. The Technology and Conference Center and the Abrams Office Building provide the

locations for many of the training activities and meetings conducted by the Center. Using moveable walls, meetings for up to 500 people can be accommodated. Each meeting room is supported by video-projection, computer technology, marker boards, and drop-down screens, which make viewing accessible to



large groups. Most of this equipment was upgraded during the 2013-2014 year. Plans are currently underway to do a major renovation to Center training areas in both facilities in order to implement innovate new teaching strategies as outline in our new Professional Learning Model.

PLM – Professional Learning Model



The learning experience is enriched by supporting resources, spaces, and tools.

The ever-changing, current delivery modes for the learning pathways.

The 5 learning pathways are the delivery methods for ensuring quality learning experiences.

The design essentials should be the core of all learning experiences at Region 10.

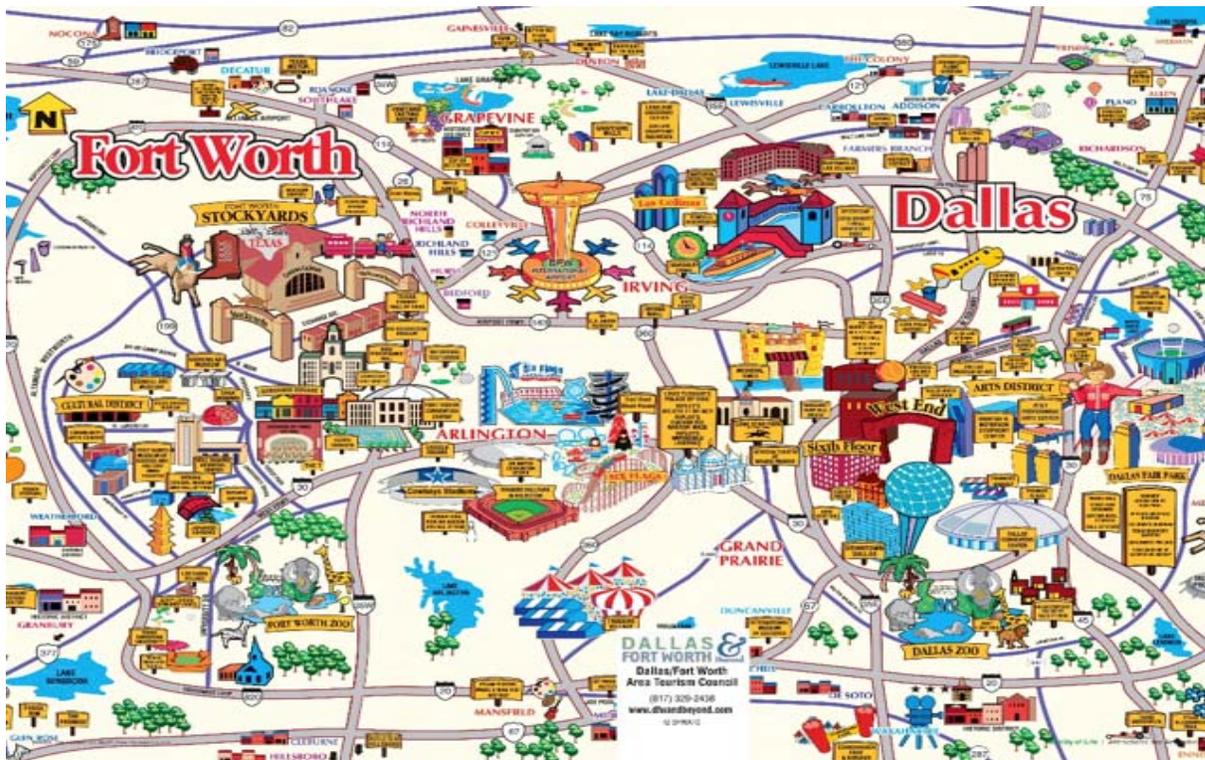
A smoke-free and drug-free environment is maintained in addition to having in place security camera surveillance in the parking areas twenty-four hours a day. The staff uses an off-site parking system at neighboring facilities to provide additional close-in parking for patrons and clients of the Center.

The Center is home to training and technical assistance opportunities from the opening of the doors at 7:30 a.m. until sometimes well into the night and on weekends. These include alternative certification training for aspiring teachers, professional learning sessions for current teachers, administrators, and board members along with many other services to the broader educational community.

North Texas Economic and Quality of Life Outlook

As the leading economic development agency for the Dallas-Fort Worth area, locally known as “DFW”, the Dallas Regional Chamber has the distinction of promoting one of the nation’s top locations for business and culture. For instance, DFW ranks among the top three U.S metropolitan areas for business expansions, relocations and employment growth. The region is also home to more than 400 public parks on 21,000

acres of parkland, approximately 60 lakes and reservoirs and more shopping centers per capita than any other major U.S. city. The Great State Fair of Texas is the largest annual state fair in the country with over 3.5 million visitors, and cities within the region have earned top 10 honors as “best world city for young people (Dallas)”, “best city for families (Plano)“, and “best place to retire (Grand Prairie)”.



Indicators like these show why more than 7.1 million people call DFW home. They also show that the Center is located in the midst of a booming market for economic and population growth in Texas. Conveniently located in the middle of the U.S. and North American continent, DFW provides an excellent business climate with easy access to other business centers. Business costs in DFW are lower than any other major metropolitan area in the nation. The region has ample affordable real estate – both office and industrial – and reliable utilities with high capacity. Also, a range of state and local incentives are available for qualified businesses. The community’s pro-business attitude supports a wide range of industries throughout the area served by the Center.

The region has a mild year-round climate with an average daily low temperature of 57 degrees and an average daily high temperature of 77 degrees. In addition to a mild climate, DFW has a moderate cost of living, typically several points below the national average, and considerably lower than major east and west coast cities. Housing opportunities in the regional service area offers urban chic living and small-town pride mixed with big city conveniences.

Employers in DFW draw from a well-educated and skilled workforce throughout the 13-county region. A robust network of interstate highways, state



highways, toll roads and light rail makes it easy for workers to navigate the area, keeping commute times low for major employment centers. The region's relatively low cost of living means employers can tap into a strong workforce no matter where they base their operations. For employees, the wide distribution of jobs means that they are able to choose from a variety of communities in which to live and enjoy the lifestyle that best fits their needs.

Services Provided

The primary functions of the Center are to assist school districts in improving student performance, enable school districts to operate more efficiently and economically and to implement initiatives assigned by the legislature or commissioner. According to the Texas Legislative Budget Board, education service centers save school districts hundreds of million dollars per year by providing quality services at a lower cost.

There are eight primary service areas in Region 10 plus a couple of internal support areas.

Primary Service Areas:

- **Administrative Services** has responsibility for offering a comprehensive package of services for superintendents and their leadership teams to improve their effectiveness and also to improve the economy and efficiency of their school districts. These services fall into the following major categories:
 - o **Accountability and Compliance Services:** a wide array of services is provided including district accreditation and accountability services, performance-based monitoring services and site-based decision-making services.
 - o **Business/Finance, Facilities and Operations Services:** products offered include annual tax rate survey, enrollment projections, investment officer training, notary training, school finance conferences and consultation, and safety and security audits.
 - o **Human Resources Services:** sample offerings are criminal history records checks, recruitment services for teachers, principals and other administrators, and the HR roundtable.
 - o **Information and Training Services:** these services include administrator leadership training, charter school roundtables, financial consulting, school board training and the superintendent's academy.
 - o **Retirement Asset Management Services:** this category includes the teacher/employee recruitment and retention program, FICA alternative plan cooperative, the 457 plan cooperative, and 403(b) third party administration.
 - o **Child Nutrition Programs:** provides technical assistance, training and resources to districts in order to promote effective management of the Child and Adult Care Food Program, National School Lunch, Breakfast and After School Snack Program and Summer Food Programs.
 - o **Child Nutrition Purchasing Cooperative:** organizes, administers, tabulates, advertises, awards the bids and acts as a coordinating center for all bids to assist member districts in substantial savings on the cost of food items.

- **Technology and Data Services** offer services both internal to the Center and in support of districts and charter schools in the following service areas.

- o Student and Business System Services: training and support for TxEIS Student and Business Information Systems; training and support for Skyward Student Information System.
 - o Data and Analysis Services: application architecture, design and development; data reporting and analysis; PEIMS (Public Education Information Management System) reporting, Texas Student Data System (TSDS) help desk; and, TSDS dashboard support.
 - o Network Management Service: network design and support; internet services and support; data center support and hosting services; and, security design and monitoring services.
 - o Office of Director of Technology & Data Services: strategic planning, annual technology planning; business continuity planning; and, technology outsourcing services.
 - o Internal Services: network performance and security, internet and phone services, software licenses and data backup services.
- **Teaching and Learning Services** has responsibility for improving student achievement and implementing state educational initiatives. Teaching and Learning Services offers a wide array of instructional support services to schools, which includes the following.
 - o Bilingual Education/English Second Language (BE/ESL): dual language bilingual program content and design; Title 1 Part C grant/program compliance, parent involvement, migrant out of school youth recruitment services, secondary student involvement; BE/ESL coaching, certification and program model content and design; charter school networking; and, many other areas in BE/ESL.
 - o Curriculum & Assessment Services: Texas Essential Knowledge and Skills (TEKS) resource system product support; curriculum development and audits; curriculum and instructional planning; instructional improvement process; assessment planning, development and audits; instructional coaches institute; accountability; and, statewide assessment program.
 - o Effective Teaching Practices & Content Areas: face to face professional development – TEKS alignment and the State of Texas Assessments of Academic Readiness (STAAR) preparation; STAAR quarterly webinars; onsite trainings for coaching in content areas; online resources and training in math, science and social studies; and, Texas Regional Collaboratives in math and science.
 - o Literacy/Dyslexia: K-12 English Language Arts professional development; dyslexia; Write for Texas; library services; advanced academics; and, Texas Literacy Initiative.
 - o School Support Services, No Child Left Behind (NCLB): counseling services; bullying and school/internet safety; school health; drug prevention; team building; college and career readiness; school improvement; NCLB programming; and, cultural and diversity training.
 - **Special Population Services** provide accountability and administrative support to special education and LEA administrators in all phases of effective and efficient programming and program systems. The Center provides professional development and technical assistance for LEAs to more effectively plan, design and implement quality special education programs and services and also provide

guidance through a variety of venues to ensure that the LEAs have the most current information regarding laws, policies and procedures related to effective and compliant special education programming for students with disabilities. The department also offers direct student services to LEAs on a contract basis. Program include:

- o Positive behavior support interventions
 - o State assessment programs for students with disabilities
 - o Specific disability areas such as autism, auditory impairment, speech impairment, low incident disabilities and support for other disability categories
 - o Job fairs for students with disabilities through Project Search
 - o Evaluation and child find
 - o Interagency collaboration and assistive technology integration
 - o Charter school support
 - o Statewide Region 10/Speech Language Pathology Master's Program, Special Education Information Center and McKinney-Vento Homeless Program
 - o Section 504 disability cooperative services
 - o Adaptive physical education consultation services; occupational and physical therapy related services; and, services for students with visual impairments including orientation and mobility services.
 - o Provides technical assistance and professional development in the areas listed above; a region-wide assistive technology loan program for students with visual impairments; and, a collaborative certification program for teachers of students with visual impairments.
 - o Support LEAs, students and families in the areas of expanded core curriculum for students with visual impairments as required by the state and recreation and lifetime leisure skills which includes the annual Kidnetic Games, Special Olympics and the Sports Extravaganza.
- **Digital Learning and Resources** focus on developing the vision and capacity within districts and educators to leverage current technologies and to create use of existing and new resources that enhance efficiency and the effective transformation of processes and systems to enable students to develop the habits and skills necessary to be successful. In order to achieve this, the following systems/initiatives are utilized:
 - o Assessment & Accountability Data Systems: training and product support for Eduphoria!, a data analysis and benchmarking system; system training for TEKS Bank, an online data bank of assessment questions aligned to Texas academic standards; and Education Service Center Curriculum Cooperative.
 - o Digital Learning Initiatives: designed to develop and enhance capacity of the participants to learn, lead and teach effectively in a digital world including Citizenship in a Digital World, the Digital Fluency Academies, Digital Leadership Academies, Google Apps for Education support Maker Spaces and Youth Digital Camps and EdCamps.
 - o Distance Learning Initiatives: designed to connect learners content and educators across space and/or time to provide opportunities and efficiencies for continued learning including Online Learning Center,

Reggie's Robots for homebound students, Videoconferencing and the Texas Virtual Schools Network.

- o Data Initiatives: designed to enhance the effectiveness of planning and decision making among both internal and external clients including BrightBytes Clarity for Schools.
- o Financial Initiatives: designed to increase district effectiveness and efficiency in utilizing federal funds through shared services arrangements, to leverage the volume purchasing power of cooperative opportunities and to free district staff to focus on learning.

- **Early Childhood Services** provide high quality services and support to school districts' preschool programs including Pre-K, Preschool Program for Children with Disabilities (PPCD), Head Start and Early Head Start.
 - o Head Start: the Center is the grantee for the Head Start program in a five-county area: Collin, Ellis, Grayson, Kaufman and Rockwall. The partnership provides a comprehensive early childhood program that wraps around the district's Pre-Kindergarten program.
 - o Early Head Start: the Center has a partnership with three school districts that include Sherman, McKinney and Rockwall ISDs to provide Early Head Start for children age's birth to three.
 - o PPCD: the Center provides support to all LEAs with a focus on preschool children with a disability
 - o Pre-Kindergarten: the Center provides general support and training for LEAs
 - o Preschool Cooperative: this new cooperative offers training and collaboration opportunities for Preschool teachers and is gaining rapidly in popularity

- **Personnel & Certification Services** provide a variety of professional development and quality services in the areas of:
 - o Bus Driver Training: provides safety training courses including certification and re-certification courses
 - o Educator Preparation Program: works with individuals seeking certification as educational diagnosticians, school counselors and teachers.
 - o Superintendent Intern Program: Region 10 works with selected colleges and school districts to develop programs for aspiring superintendents.
 - o HR Training for Client Schools: periodic conferences and continuing HR roundtable discussion are held to facilitate sharing of best practices

- **Communication Services** serves the internal needs of the Center in the areas of marketing, branding, and communication of all kinds including social media and video production. This service area also provides external client services such as:
 - o Media relations training
 - o Group facilitation
 - o Strategic communications
 - o Mass regional communications

Support Areas:

- **Financial Services** has responsibility for all internal business functions including payroll, accounts payable/receivable, purchasing, risk management, grant management, reporting, cash management, and investments. This area also offers printing services to internal and external clients. These services include digital reproduction in black/white or color; variable data processing/mail fulfillment, posters, roll-up displays and banners; traditional forms, promotional calendars and custom flyers, and customized binders and bound books.
- **Human Resources** is tasked with managing the following responsibilities: recruitment and staffing strategies, compensation administration, employee benefits, leave management and employee on-boarding. The HR staff is committed to a servant leadership approach in facilitating professional communication for the common purpose of the ESC as an organization and its employees. Their primary responsibility is to provide all internal service areas with best practice HR strategies to maximize employee and team success.

Center Accomplishments for the 2016-2017 Year

All Center activities are aligned with the three statutory purposes of Education Service Centers as outlined below.

Improve Student Performance in School Districts and Charter Schools Served - ESCs impact student performance in school districts and charter schools served by providing programs, products, services and resources to enhance teacher effectiveness. ESC goals and objectives take into consideration student performance in school districts and charter schools served on an ongoing basis. Products and services developed by ESCs are developed and/or designed to assist school districts and charter schools in meeting student performance standards.

Improve School District and Charter School Effectiveness & Efficiency – ESCs impact school district and charter school effectiveness and efficiency by providing programs, services, and resources to enhance school district and charter school leader effectiveness. ESC programs and services for cooperative purchasing, technical assistance and program support enable school districts and charter schools to operate more effectively and efficiently. ESCs promote effective use of professional development funds and activities to support school district and charter school improvement.

Implement Initiatives Assigned by the Legislature or the Commissioner of Education – An example in the 2016-2017 year was the implementation of state funded summer academies to provide teacher effectiveness training in the areas of Math, Literacy Achievement and Reading to Learn for various grade levels.

Outlined below in the section “Region 10 by the Numbers” are highlights of the Center’s 2016-2017 accomplishments using data to add meaningful context. These accomplishments are aligned to our motto Students/Services/Solutions.

Region 10 By The Numbers

2016

42

33

62

234

2017

33

60

227

313

Campuses receiving Restorative Practices training

LEAs receiving R10 Skyward support

R10-administered Safety and Security audits

School Board members trained

36,000+
Head Start & Early Head Start students data sheets consolidated



ONE
Central application capable of real-time data reporting, alerting and longitudinal analysis



30%
50%
70%



Data tracked



Administrative costs



Rate of tracking



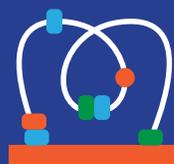
14
Best Practice videos **produced** for statewide use

16
Conferences **hosted** by R10 Teaching & Learning Services



17
Poverty simulations **conducted** impacting 1,000+ R10 students living in poverty

27
Early Childhood classes **transformed** for our youngest learners



29
Homebound students stayed **connected** through Reggie's Robots



214
Sports Extravaganza Athletes



8,913
Special Olympians



80+
Kid-Netic Games Participants



256
Participants in PLA/APLA Leadership Trainings XV



400
Percentage increase in OnData Suite participation by LEAs



439
Educators **reached** through Federal Friday webinars

765

103K

342K

135K 2016

1,059

139K

396K

438K 2017

Administrative Leadership Training participants served

Registered Region10.org site members

Online courses completed

ADA supported by Skyward



24,202

Participants served by Special Populations professional development sessions



\$37 million

Federal funding managed for over 69 districts



76%

of LEAs received customized TEKS Resource System training and support

80% State Acceptable Score

97-100% Region 10 candidate passing rates

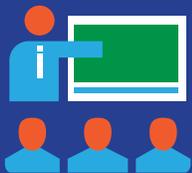
Top Teachers

Teacher candidates in the Alternative Certification Program at Region 10 excel and surpass state scores on certification exams



2,945

Professional development trainings provided to LEAs



500

Percentage increase in instructional coaches trained



600+

Attendees at the Now4Forever Early Childhood conference

40,000

Teachers in 130 LEAs who learned new strategies through Teaching & Learning professional development this summer



In over **25,000** surveys **4.82 out of 5** workshop participants say their learning experience at Region 10 will impact student achievement



ANNIVERSARY

25 years of Head Start **celebrated!**

What a difference 25 years makes!

20

in 2016

70

in 2017

80

in 1991

1,120

in 2017

Early Childhood professional learning sessions at LEAs

Students served in Head Start & Early Head Start

168 Pregnant women & teens received hope & support

Making Connections in Special Populations

300

Families

Connecting the Dots Expo

70+

Community Agencies

40+

LEAs

161

Students & Adults

1st Annual Disabilities Job Fair

103

Employers



800

Dyslexia educators challenged to **make a difference** at the 22nd annual State Dylexia Instutite



1,216

K-12 educators experienced Learning on Location at 15 different partner sites



1,274

R10-hosted sites **fed students** throughout the summer



2,000+

Literacy & math teachers **trained** through academies

“We take great pride knowing that Region 10 makes a difference every day in the lives of students across north Texas. We do that by providing service and innovative solutions that help schools and educators be the best they can be.”

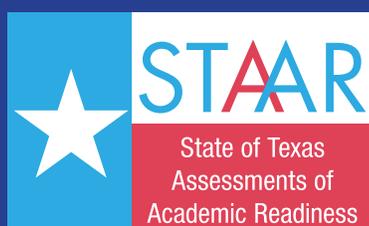
– Gordon Taylor, Ed.D, Executive Director, Region 10 ESC



22.4% of our students are English Language Learners

46.4% are identified as At-Risk

56.3% are Economically Disadvantaged



Region 10 partner districts and charters scored above the state average in all four STAAR indexes.

“Region 10 ESC supports Texas schools as we work to serve the needs of our students. Region 10 makes Life School better!”

– Brent Wilson, Life School Superintendent

“The innovative work Region 10 performs through its professional learning framework is leading the way to equip our teachers and prepare our students for their future.”

– Supt. Jill Siler, Gunter ISD

“I enjoy knowing Region 10 is always a phone call away. Your people take pride in the quality customer service they provide.”

– Supt. Roosevelt Nivens, Community ISD

“Region 10 demonstrates an unwavering commitment to our district as demonstrated by its service-oriented action and the personal relationships maintained with our staff.”

– Supt. John Wink, Blue Ridge ISD



Region 10 ESC

Funding

The Center receives a limited base amount of state money for Center operations that has decreased in recent years. Although the majority of Center funding comes from state or federal grants and contracts it administers, the Center continues to earn an ever expanding percentage of revenue through local fees for products and services provided to local districts, state and nation-wide clients.

Prior to September 1, the budget is legally adopted by the Board of Directors. Once a budget is approved, it is amended at the functional expenditure category and major fund group by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Internal Controls

Internal controls have been established by the Center's management to provide reasonable assurance that assets of the Center are being properly safeguarded, financial records are fairly and accurately maintained and governing statutes and policies are correctly followed. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met, recognizing that the cost of control should not exceed the benefits likely to be derived.

As a recipient of federal, state, and local financial assistance, the Center is also responsible for ensuring that an adequate internal control structure is in place to guarantee and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by the Texas Education Agency and other federal/state auditors. As part of the Center's single audit, tests were made of its internal control structure and its compliance with applicable laws and regulations, including those related to federal financial assistance programs. The audit for the year ended August 31, 2017, disclosed no material internal control weaknesses or material violations of laws and regulations.

As demonstrated by the statements and schedules included in the financial section and the federal awards section of this report, the Center continues to meet its responsibility for sound financial management.

Long-Term Financial Planning

Due to state-wide budget constraints, school districts have to make difficult decisions on how to spend their available resources. In spite of this difficult environment, the Center has maintained almost 100 percent participation among client districts. The critical mission of service centers is to provide cooperative and collaborative instructional and administrative services; our superintendents have clearly shown that they value the role of ESCs. To ease the financial burden on school districts, the Center has continued to enforce rigorous cost controls in order to offer services with only modest fee increases. A multi-year plan is in place and continually updated to forecast client needs and available resources in this challenging scenario.

Facility planning to maintain current structures continues to be a high priority. The Board has committed substantial funds for future building improvements, primarily a multi-million dollar upgrade to create highly innovative training areas that align with

our new Professional Learning Model. To this end, the Center has hired two architects to develop a master plan for each of our two buildings and a construction manager to carry out these plans. The financial resources for this major renovation have been obtained from several sources including the Center's own fund balance, funds from a Region 10 Shared Service organization called the Regional Consortium for Innovation, and a loan from a local capital bank. Construction is anticipated to start in January of 2018 and last for approximately a year and a half.

Relevant Financial Policies

Like most public entities, the Center's investment policy emphasizes safety of principal and liquidity over yield. Per local policy, the only permissible investments are U.S. Treasuries and Agencies, bank CD's and government investment pools that do not use commercial paper. Conservative investment strategies and low market rates have resulted in a significant decrease in investment income over the last few years.

The Center's risk management policies are designed to ensure that the Center does not assume any significant self-insurance risk, although this comes at a cost to programs. The employee health insurance program is a State sponsored fully insured plan (TRS Active Care). Additionally, the Center is fully insured for workers compensation and unemployment compensation claims and maintains an appropriate level of coverage, given our sovereign immunity, for General Liability. Property and casualty insurance levels are reviewed annually to ensure that facilities and equipment are covered at a cost effective level.

Due to the large amount of federal funds that flow through or are used by the Center to provide services, a complete Federal Grants Management Manual has been developed which incorporates all of the new federal cost principles contained in the Uniform Guidance Documents that are part of the Code of Federal Regulations (CFR), specifically Title 2 and 34 which is the Education Department General Accounting Regulations (EDGAR).

During the year, departments within the Center may bill one another for services normally provided to external clients (e.g. database development, training, video production, website hosting). Also, school district members of the federal cooperatives may use their entitlement funds, held by the Center as fiscal agent, to purchase services or coop memberships from the Center. These particular types of transactions are not included in the internal service funds. On the Statement of Activities, the Center has eliminated approximately \$1.8 million of revenue and expenses that are for these type of internal activities in order to avoid overstating revenue and expenses.

Independent Audit

Section 8.102, Texas Education Code, requires an annual audit by independent certified public accountants. The Center's Board of Directors approved the firm of Edgin, Parkman, Fleming & Fleming, P.C. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The auditors, in conducting the audit engagement, used *Government Auditing Standards* issued by the Comptroller General of the United States. Furthermore, the audit is performed in

accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*.

The audit is made on an organization-wide basis and involves all funds of the reporting entity. The independent auditors' report on the financial statements is included in the financial section of this report. The independent auditors' report on internal controls and compliance with requirements applicable to each major program can be found in the federal awards section of this report.

Acknowledgments

We would like to express our gratitude to the members of the Board for their contribution to the continued successful operation of the Center. We would also like to express our appreciation to those staff members who contributed to the preparation of this report as well as the independent audit firm of Edgin, Parkman, Fleming & Fleming, P.C., for their technical support.

Respectfully submitted,



Gordon Taylor, Ed.D.
Executive Director



Sue Hayes
Chief Financial Officer



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

**The Certificate of Excellence in Financial Reporting
is presented to**

Education Service Center Region 10

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended August 31, 2016.**

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards.



A handwritten signature in black ink, appearing to read 'Anthony N. Dragona', written over a horizontal line.

Anthony N. Dragona, Ed.D., RSBA
President

A handwritten signature in black ink, appearing to read 'John D. Musso', written over a horizontal line.

John D. Musso, CAE
Executive Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Education Service Center Region 10
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2016

Christopher P. Morill

Executive Director/CEO

FINANCIAL
SECTION

FOR THE FISCAL YEAR ENDED
AUGUST 31, 2017



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR ▪ P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 ▪ FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA
A. PAUL FLEMING, CPA

Independent Auditor's Report on Financial Statements

Board of Directors
Education Service Center Region 10
400 E. Spring Valley Road
Richardson, Texas 75081-5199

Members of the Board of Directors:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Education Service Center Region 10 (the Center) as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The introductory section, individual fund information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The individual fund information and schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 individual fund information and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Respectfully submitted,



Edgin, Parkman, Fleming & Fleming, PC

December 8, 2017

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

This section of Education Service Center Region 10's (the Center or Region 10) comprehensive annual financial report is a narrative overview and analysis of the financial activities of the Center for the fiscal year ended August 31, 2017. Readers are encouraged to consider the information presented here in conjunction with the information provided in the letter of transmittal, which is located at the front of this report and the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government Wide Statements (long term view of economic resources, pages 15-17)

* Net Position at Year End: As shown on the Statement of Net Position, the assets/deferred outflows of resources of the Center exceeded its liabilities/deferred inflows of resources at the close of the most recent fiscal year by \$9,325,103 (*net position*). Of this amount, \$2,530,533 (*unrestricted*) may be used for the Center's ongoing operations and \$6,794,570 is investment in capital assets.

* Change in Net Position: The Statement of Activities shows that current year expenses exceeded current year revenue by \$461,879 resulting in a decrease to net position from the prior year. This decrease is primarily due to the adjustments recorded for GASB Statement No. 68 "Accounting and Financial Reporting for Pensions".

GASB Statement No. 68 requires reporting entities to recognize their proportionate share of the State's future net pension liability and operating statement activity related to changes in the collective pension liability as of the measurement date of August 31, 2016 (August 31, 2017 won't be available until spring of 2018). The statement also requires recognizing deferred outflows and inflows of resources for the current year and recognizing the Center's portion of the State's on-behalf portion of the plan pension expense. See Note I for further details.

Fund Financial Statements (shorter term view of financial resources, pages 18-21)

* Net Change in Fund Balances: Fund financial statements show that during fiscal year 2016-2017, the Center's General Fund balance increased by \$106,290, in spite of a planned use of fund balance. Although service fee increases were purposely held to a minimum over the past few years due to federal/state funding issues and school district budget constraints, the Center was still able to cover 2016-2017 operating costs and provide for future product development and equipment needs.

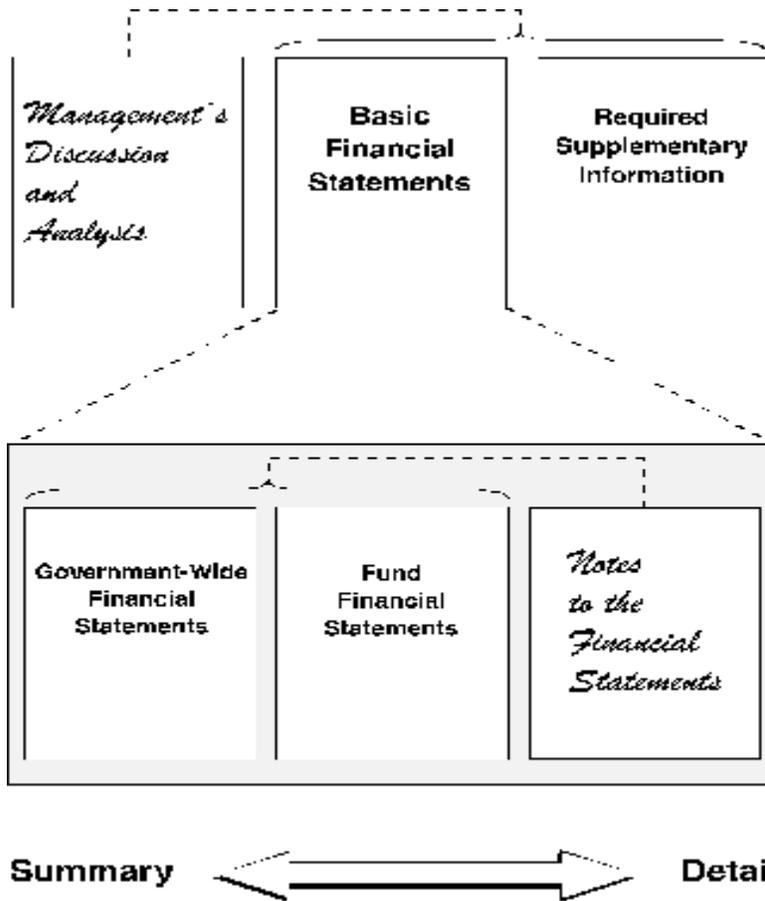
* Fund Balance at Year End: At the end of the fiscal year, the Center's governmental funds reported combined ending fund balances of \$8,998,987, all in the General Fund. The unassigned General Fund balance was \$2,807,235 or 13.5% of General Fund expenditures. This level of unassigned fund balance is less than the 20% maximum allowed by the Texas Education Agency for cash flow emergencies and other unforeseen contingencies and slightly lower than the general ESC guideline of 15%. Non-spendable fund balance of \$103,378 represents prepaid assets in the General Fund and is not an expendable financial resource. The remaining \$6,088,374 of General Fund balance is committed by the Board for various purposes including budgeted use of fund balance for the 2017-2018 year, building improvements, product research and development and long-term contractual obligations.

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

USING THIS ANNUAL REPORT

This annual report consists of three required parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. Other supplementary information can be provided at management's discretion.

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



Management's Discussion and Analysis

MD&A is part of the required supplementary information that precedes the financial statements. It should provide a concise, unbiased, and easily readable description of the Center's financial activities and should be based on currently known facts as of the audit report. This section helps users understand the relationship of the results reported in the government-wide financial statements and the results reported in the major governmental funds financial statements.

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

Basic Financial Statements

Government Wide Financial Statements – Reporting the Center as a Whole

The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 15 and 16 - 17). These provide information about the activities of the Center as a whole and present a longer-term view of the Center's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The purpose of this analysis is to show whether the Center is better or worse off as a result of the year's activities. The Statement of Net Position includes all the Center's assets/deferred outflows of resources and liabilities/deferred inflows of resources at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the Center's operations during the year and their overall effect on net position. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

On the Statement of Activities, the Center's revenues are divided into “Charges for Services” which are those provided by outside parties who share the costs of some programs, primarily charges to school districts for services provided, and “Operating Grants and Contributions” which are federal and state grants provided by the U.S. Department of Education, the Texas Education Agency (TEA), or other grantor agencies for specific program purposes. These revenues are then allocated to functional expense categories to show the impact on net position for that category. General revenues, such as state base and state supplemental health funds provided by TEA, and investment earnings are shown at the bottom of the Statement of Activities and are not associated with a specific functional expense category.

These two statements report the Center's net position and changes in them. The Center's net position (the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources) provides one measure of the Center's financial health, or financial position. Over time, increases or decreases in the Center's net position are one indicator of whether its financial health is improving or deteriorating. However, in order to fully assess the overall health of the Center, non-financial factors such as the level of district participation in the Center's programs and services, upcoming federal and state legislation, and the condition of the Center's facilities should be considered. For the Center, the Statement of Net Position and the Statement of Activities is comprised entirely of Governmental activities, which are described below.

Fund Financial Statements – Reporting the Center's Most Significant Funds

The fund financial statements (starting on page 18) provide detailed information about individual funds, not the Center as a whole. 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. Laws and contracts require the Center to establish some funds, such as grants received from state and federal agencies. The Center's administration establishes many other funds to help it control and manage money for particular purposes.

The Center's three kinds of funds – governmental, proprietary and fiduciary – use different accounting approaches.

Governmental funds – All of the Center's basic services are reported in governmental funds. The General Fund includes local “fees for services” programs, the Special Revenue Fund includes

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

special purpose grants, the Debt Service Fund includes bank fees associated with loan origination costs and the Capital Projects Fund includes architect fees related to renovating the training rooms at the Center's two buildings. Governmental funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and reports balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the Center's general operations and the basic services it provides. A description of the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is found in reconciliation schedules following each of the fund financial statements. The primary differences are the treatment of capital assets and related depreciation, the consolidating of the proprietary fund's net position and GASB Statement No. 68's net pension liability and related deferred inflows and outflows of resources.

Proprietary funds – There are two kinds of proprietary funds - *enterprise* (profit making activities) and *internal service* (fund which provides services to internal departments and is designed to “break even”). The Center does not have any enterprise funds, but does have an internal service fund that includes such costs as insurance, housing, building maintenance, technology infrastructure and printing. Unlike governmental funds, the internal service fund uses the full accrual accounting methodology used in the government wide statements. The internal service fund is not incorporated in the fund financial statements although the charges to internal departments are shown as expenditures.

Fiduciary funds – The Center established a scholarship fund in honor of retired administrative assistant to the executive director, Kathleen Boswell. This private-purpose trust fund, which the Center holds funds in a trustee capacity, is funded through donations received from employees, other individuals or businesses. Any support staff who wants to further their education can apply for a scholarship. Applicants will be selected by a scholarship committee.

The Center also established an agency fund to receive contributions from employees to be used for Center events such as administrative assistants' day and other employee activities. The Center holds these funds in custodial capacity.

The fiduciary funds use accrual accounting but because these funds are held in a trustee or custodial capacity, they are not included in the government-wide statements. The private-purpose trust fund's reporting activities focus on net position and changes in net position while the agency fund does not involve measurement of results of operations. The agency fund does not have net position because assets equal liabilities.

Notes to the Financial Statements

The notes to the financial statements (starting on page 27) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Required Supplementary Information

The required supplementary information is comprised of this management's discussion and analysis, budgetary comparison schedules for the General and Special Revenue Funds shown in the fund financial statements, schedules regarding GASB Statement No. 68 and notes to required supplementary information.

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

The budgetary comparison schedules for the General and Special Revenue Funds show the original budget, final amended budget, actual amounts and the variance between the final amended budget and actual as of August 31, 2017. The GASB Statement No. 68 schedules include a schedule of the Center's proportionate share of the net pension liability and a schedule of retirement contributions.

Individual Fund Information

The individual fund information is comprised of budgetary comparison schedules for the Debt Service and Capital Projects Funds, with the original budget, final amended budget, actual amounts and a variance column. Also included is a statement of changes in assets and liabilities for the agency fund.

Federal Awards Section

The Federal Awards Section contains data used by monitoring or regulatory agencies for assurance that the Center is using funds supplied in compliance with the terms of grants.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis focuses on the net position (Table I) and changes in net position (Table II) of the Center's governmental activities.

TABLE I
NET POSITION

	Governmental Activities 2017	2016	Total % Change
Current and Other Assets	\$ 33,625,235	\$ 32,489,666	3%
Capital Assets	6,794,570	7,038,224	-3%
Total Assets	<u>40,419,805</u>	<u>39,527,890</u>	<u>2%</u>
Deferred Outflows of Resources	<u>5,693,363</u>	<u>8,054,868</u>	<u>-29%</u>
Current Liabilities	22,126,761	21,934,589	1%
Long-Term Liabilities	13,867,952	13,419,801	3%
Total Liabilities	<u>35,994,713</u>	<u>35,354,390</u>	<u>2%</u>
Deferred Inflows of Resources	<u>793,352</u>	<u>2,441,386</u>	<u>-68%</u>
Net Position:			
Investment in Capital Assets	6,794,570	7,038,224	-3%
Unrestricted	2,530,533	2,748,758	-8%
Total Net Position	<u>\$ 9,325,103</u>	<u>\$ 9,786,982</u>	<u>-5%</u>

The changes in deferred outflows and inflows of resources are due to GASB Statement No. 68, which was implemented during the 2014-2015 fiscal year. See Note I for further explanation.

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

Net position as of August 31, 2017 was \$9,325,103. This compares to total fund balance on the fund financial statements of \$8,998,987. As shown in Exhibit C-2, the major differences are that net position includes the value of investment in capital assets, net pension liability and related deferred inflows and outflows of resources, the value of internal service fund net position and depreciation expense.

Bottom line total net position decreased from \$9,786,982 as of August 31, 2016 to \$9,325,103 as of August 31, 2017. There are two components of August 31, 2017 Net Position displayed in Table I:

- 1) Investment in Capital Assets (e.g., land, buildings, furniture, and equipment) - The \$243,654 decrease resulted from current year capital assets purchased less current year depreciation expense. Current year capital assets purchased was \$126,609 and depreciation expense on capital assets was \$370,263.

The Center uses these assets to provide services to regional school districts; consequently, capital assets are not available for program spending.

- 2) Unrestricted – This portion of net position can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. The change in unrestricted net position between 2015-2016 and 2016-2017 decreased by \$218,225. This is primarily due to the adjustments required by GASB Statement No. 68.

The revenue/expense changes that led to these changes in Net Position are detailed in Table II below.

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

TABLE II
CHANGES IN NET POSITION

	Governmental Activities		Total % Changed
	2017	2016	
Revenues:			
Program Revenues:			
Charges for Services	\$ 20,409,854	\$ 19,129,132	7%
Operating Grants and Contributions	53,361,533	57,519,263	-7%
General Revenues:			
Grants and Contributions not restricted to specific functions	941,687	985,215	-4%
Investment Earnings	115,189	64,164	80%
Total Revenues	<u>74,828,263</u>	<u>77,697,774</u>	-4%
Expenses:			
Instruction and Instructional-Related Services	34,996,027	36,055,064	-3%
Instructional and School Leadership	790,023	647,821	22%
Health Services	11,195	14,010	-20%
General Administration	3,030,671	2,874,400	5%
Plant Maintenance and Data Processing	5,382,418	5,864,392	-8%
Community Services/School District			
Administrative Support	7,564,974	7,503,369	1%
Debt Services - Loan Origination Costs	10,000	-	100%
Payment to Member Districts	23,379,364	25,777,068	-9%
Total Expenses	<u>75,164,672</u>	<u>78,736,124</u>	-5%
Change in Net Position Before Special Item	(336,409)	(1,038,350)	
Special Item (Note P)	(125,470)	-	
Change in Net Position of Governmental Activities	(461,879)	(1,038,350)	
Net Position at September 1 (Beginning)	9,786,982	10,825,332	
Net Position at August 31 (Ending)	<u>\$ 9,325,103</u>	<u>\$ 9,786,982</u>	

Total revenues decreased from the prior year primarily as a result of Adult Education federal and state grants ending in the prior year. Investment earnings increased due to rates increasing in 2016-2017.

Expenses decreased in proportion to the revenue changes. The Center did incur bank loan origination costs during 2016-2017 due to future borrowing of funds for building renovations.

As shown in the Changes in Net Position Table II, expenses exceeded revenue in fiscal year 2016-2017 by \$461,879 in the Government Wide financial statements. This amount is different than the \$106,290 contribution to fund balance shown in the fund financial statements for the

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

same time period. The differences between the two, such as the internal service funds' change in net position, capital outlay, depreciation and net pension liability and related deferred inflows and outflows are detailed in Exhibit C-4.

THE CENTER'S FUNDS

As the Center completed the year, its governmental funds (as presented in the balance sheet on page 18) reported a combined fund balance of \$8,998,987 that was entirely in the General Fund. Although there was a planned use of fund balance to keep customer fees flat, at year end fund balance increased due to strict cost controls.

The unassigned portion of General Fund balance at year-end was \$2,807,235 (13.5% of General Fund expenditures). Informal guidelines set by the education service centers in conjunction with the State, suggest that unassigned General Fund balance should be between 15 – 20% of general fund expenditures so the Center was slightly lower than the suggested range. The rest of the Center's General Fund balance was either non-spendable for unrealized expenditures or committed by the Center's Board for various purposes including the 2017-2018 budgeted use of fund balance, building improvements, product research and development and long-term operating lease obligations.

The Special Revenue Fund revenue and expenditures decreased from the prior year primarily due to the ending of the Adult Education federal and state grants.

The Debt Service Fund consists of costs associated with bank loan origination costs. The Center is in the planning stages of renovating the training facilities at both of its buildings (Spring Valley and Abrams). Part of the funding for these renovations will be money borrowed from Dallas Capital Bank. During the 2016-2017 year, the Center paid Dallas Capital some of the costs associated with the origination of the bank loan.

The Capital Projects fund was set up for the building renovation costs. Although the Center is still in the planning stages, architect expense was incurred during the 2016-2017 fiscal year. Huckabee and Associates was awarded the contract for the renovations at the Abrams building location while VLK Architects was awarded the contract for the Spring Valley building. The architect fees paid in 2016-2017 were classified as Construction Work in Progress and are displayed in the notes to the financial statements (Note F).

The Center's Proprietary Fund uses the full accrual accounting methodology contained in the government wide statements and therefore does not have a fund balance, but rather net position. Net position in the internal service fund, as displayed in Exhibit D-2, increased in 2016-2017 by \$762,295. This change in net position resulted in a total net position of \$2,514,739 as of August 31, 2017. Although the goal of the internal service fund, by definition, is to break even by charging internal departments for the cost of providing services, several components of the internal service fund, such as Housing, Insurance, and Print Shop have accumulated excess revenue from program charges to fund long range infrastructure improvement plans.

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

Budgetary Highlights

General Fund

Over the course of the year, the Board of Directors revised the Center's general fund budget several times. These budget amendments fell into several categories.

- * Supplemental appropriations approved shortly after the beginning of the year to reflect prior year open purchase orders. These are timing items where the expenditure was approved and appropriated in the prior year, but a delay in the receipt of goods or services caused payment to be delayed to the subsequent year, thus requiring re-appropriation of funds.
- * Operational expenditure transfers between functional categories throughout the year as needed.
- * Addition of new local funding sources from contributions, vendor contracts, or new local programs and services.
- * Re-forecast of local program revenue/expenditures as the year progresses.

The general fund budget grew throughout the year, as it normally does when local programs are added and revised. Departmental changes to forecasted revenue and reductions in associated expenditures throughout the year allowed the Center to turn a \$.9 million budgeted use of fund balance into a \$.1 million contribution to the general fund balance over the course of the year. Although there was a planned use of fund balance to implement new products and services, this was offset by growth in local programs, modest fee increases, and rigorous cost controls which offset the planned use of fund balance.

Exhibit F-1 details the final amended budget for the general fund compared to the actual amounts for 2016-2017. Listed below are explanations of the significant variances between the final amended budget and actual for the general fund.

- Local revenue variance of (\$365,983) – this variance was due in part to the fact that the Teacher Alternative Certification program, due to increased local competition, had fewer candidates than planned thereby causing that program's revenue and associated expenditures to be less than budget.
- Expenditures – Function 12 favorable variance of \$244,027 - this variance was due to increased district participation in the TEKS (Texas Essential Knowledge and Skills) Resource System of assessment questions and the need to hire additional staff.
- Expenditures – Function 13 favorable variance of \$436,387 – this variance was primarily due to staffing vacancies for part of the year along with rigorous cost controls in the Teaching and Learning service area.
- Expenditures – Function 62 favorable variance of \$192,563 – this variance was primarily in the Administrative Services area as they implemented cost reduction measures even as district participation in services stayed close to 100%.

Special Revenue Fund

This fund consists of federal and state grants and is amended throughout the year as new funding is received. There is also a budget amendment at the beginning of the year to incorporate

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

carryover funds from prior year grants crossing fiscal years once prior year expenditures are audited and known.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the Center had \$15,984,901 invested in capital assets, including facilities and equipment used to provide a broad array of services to school districts in the areas of student instruction, staff development, technical assistance and training, administrative efficiency and economy, data processing, and networking. Included in this number is \$103,961 for Construction Work in Progress related to the architect fees associated with renovating the training facilities at the Center's buildings. As of August 31, 2017, accumulated depreciation was \$9,190,331 representing an investment in capital assets of \$6,794,570.

More detailed information about the Center's capital assets is presented in Note F in the notes to the financial statements.

Other Obligations

Other obligations include accrued vacation pay. More detailed information about the Center's long-term liabilities is presented in Notes G through H.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Although the national economy has been volatile in recent years, the Dallas and Texas economies have fared somewhat better. The energy and high tech sectors have traditionally helped the Texas economy to stay strong. Texas weathered the housing crisis better than most states and Texas led the nation in job growth for several years. However, the past year falling oil prices have had a negative impact on the Texas economy and State appropriations for the upcoming biennium.

To the extent that school districts' property taxes and State revenue are affected by economic factors, the Center's local revenues can also be affected. The Center has experienced funding reductions in various federal programs and state initiatives and our client school districts continue to face difficult funding decisions. But the cost effective cooperative services offered by service centers continue to be a good value when money is tight and district participation in ESC services has remained close to 100% in spite of the current budget challenges. Additionally, the State has expressed a continuing long term commitment to refine the school finance system to comply with court mandates to lower local property tax burdens, provide additional state funding for public education, and give meaningful discretion in spending to local school districts.

Although the future funding outlook at both the state and federal level is uncertain, the continued high level of district participation in Center products and services and a healthy fund balance bodes well for the future. The Center continually updates a multi-year plan to continue the delivery of critical cooperative services to school districts in a cost effective way.

EDUCATION SERVICE CENTER REGION 10
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017

The 2017-2018 budget adopted by the Board reflects a \$.5 million planned use of fund balance to enhance programs, develop alternative training methods, and to keep fees reasonable. Since school districts in the state of Texas will continue to face difficult financial and student achievement issues, an ongoing goal will be to keep fee increases to a minimum while maintaining vigilant cost controls. Also, the Center is striving to develop new and innovative products that will offer value to districts and increased financial stability to the Center. The Center's Strategic Plan, which was recently updated with input from numerous stakeholders, continues to pave the way for future change along with the building renovations that are underway.

The 2017-2018 budget was adopted with total projected revenues for all funds of \$88,223,874 and anticipated expenditures of \$88,806,209. The budget reflects a planned use of previously committed fund balance to continue development of new programs and building renovations. Projected August 31, 2018 general fund balance is \$8,416,652 with an unassigned component of \$3,269,522 or 14.2% of General Fund expenditures.

As in prior years, the 2017-2018 budget is expected to grow as the year progresses and carryover funds from the prior year are added, additional grant funding becomes known, and new grants are awarded.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, creditors and other stakeholders with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions about this report should be directed to the Center's Chief Financial Officer at the Education Service Center Region 10, 400 E. Spring Valley Road, Richardson, Texas 75081.

EDUCATION SERVICE CENTER REGION 10
STATEMENT OF NET POSITION
AUGUST 31, 2017

Data Control Codes	<u>Primary Government</u> Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 3,999,622
1120 Current Investments	12,969,587
1240 Due from Other Governments	16,531,730
1250 Accrued Interest	16,038
1410 Unrealized Expenses	108,258
1510 Land	785,863
1520 Buildings and Improvements, net	5,655,848
1530 Furniture and Equipment, net	248,898
1580 Construction in Progress	103,961
1000 Total Assets	<u>40,419,805</u>
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflows Related to Teacher Retirement System	5,693,363
1700 Total Deferred Outflows of Resources	<u>5,693,363</u>
LIABILITIES	
2110 Accounts Payable	1,492,225
2150 Payroll Deductions & Withholdings	322,544
2160 Accrued Wages Payable	125,220
2180 Due to Other Governments	9,166,612
2200 Accrued Expenses	29,704
2300 Unearned Revenue	10,990,456
Long Term Liabilities:	
2501 Vacation Leave Payable - Due Within One Year	5,417
2502 Vacation Leave Payable - Due More Than One Year	102,915
2540 Net Pension Liability (Center's Share)	13,759,620
2000 Total Liabilities	<u>35,994,713</u>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflows Related to Teacher Retirement System	793,352
2600 Total Deferred Inflows of Resources	<u>793,352</u>
NET POSITION	
3200 Investment in Capital Assets	6,794,570
3900 Unrestricted	2,530,533
3000 Total Net Position	<u>\$ 9,325,103</u>

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
Instruction	\$ 5,918,317	\$ 1,971,139	\$ 3,817,314
Instructional Resources & Media Services	6,010,332	4,069,917	1,849,121
Curriculum and Instructional Staff Development	23,067,378	6,808,539	16,149,140
Instructional Leadership	790,023	143,506	598,045
Health Services	11,195	-	10,250
General Administration	3,030,671	1,758,983	1,173,211
Facilities Maintenance and Operations	1,164,481	576,204	611,680
Data Processing Services	4,217,937	2,508,822	823,853
Community Services	18,382	618	-
School District Administrative Support Services (ESC)	7,546,592	2,571,939	4,949,742
Debt Service - Bond Issuance Cost and Fees	10,000	-	-
Payments to Member Districts of SSAs (Note N)	23,379,364	187	23,379,177
TOTAL PRIMARY GOVERNMENT	\$ 75,164,672	\$ 20,409,854	\$ 53,361,533

Data
Control
Codes General Revenues:
GC Grants & Contributions not Restricted
IE Investment Earnings
SI Special Item (Note P)
TR Total General Revenues & Special Item

CN Change in Net Position
NB Net Position - Beginning
NE Net Position - Ending

The accompanying notes are an integral part of this basic financial statement.

<u>Net (Expense)</u>	
<u>Revenue and</u>	
<u>Changes in Net</u>	
<u>Position</u>	
	Total
	Governmental
	Activities
\$	(129,864)
	(91,294)
	(109,699)
	(48,472)
	(945)
	(98,477)
	23,403
	(885,262)
	(17,764)
	(24,911)
	(10,000)
	-
<u>\$</u>	<u>(1,393,285)</u>

	941,687
	115,189
	(125,470)
	931,406
	(461,879)
	9,786,982
<u>\$</u>	<u>9,325,103</u>

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	Special Revenue Fund	50 Debt Service Fund	60 Capital Projects Fund	98 Total Governmental Funds	
ASSETS						
1110	Cash	\$ 1,296,350	\$ -	\$ -	\$ 24,375	\$ 1,320,725
1120	Temporary Investments - Current	3,434,646	9,534,941	-	-	12,969,587
1240	Due from Other Governments	445,528	16,011,850	-	-	16,457,378
1250	Accrued Interest Receivable	2,268	13,770	-	-	16,038
1260	Due from Other Funds	4,759,268	-	-	-	4,759,268
1410	Unrealized Expenditures	103,378	4,880	-	-	108,258
1000	Total Assets	<u>\$ 10,041,438</u>	<u>\$ 25,565,441</u>	<u>\$ -</u>	<u>\$ 24,375</u>	<u>\$ 35,631,254</u>
LIABILITIES						
2110	Accounts Payable	\$ 248,669	\$ 1,045,970	\$ -	\$ 24,375	\$ 1,319,014
2150	Payroll Deductions and Withholdings Payable	322,544	-	-	-	322,544
2160	Accrued Wages Payable	55,727	69,493	-	-	125,220
2170	Due to Other Funds	-	4,759,268	-	-	4,759,268
2180	Due to Other Governments	18,638	9,147,599	-	-	9,166,237
2300	Unearned Revenues	396,873	10,543,111	-	-	10,939,984
2000	Total Liabilities	<u>\$ 1,042,451</u>	<u>\$ 25,565,441</u>	<u>\$ -</u>	<u>\$ 24,375</u>	<u>\$ 26,632,267</u>
FUND BALANCES						
3430	Nonspendable Fund Balance	\$ 103,378	\$ -	\$ -	\$ -	\$ 103,378
Committed For:						
3530	Capital Expenditures for Equipment	200,000	-	-	-	200,000
3545	Use of Fund Balance for 2017-2018 Budget	582,335	-	-	-	582,335
3545	Digital Learning & Resources	285,000	-	-	-	285,000
3545	Building Improvements	2,886,039	-	-	-	2,886,039
3545	Research & Development	2,000,000	-	-	-	2,000,000
3545	Xerox Rental Obligations	135,000	-	-	-	135,000
3600	Unassigned Fund Balance	2,807,235	-	-	-	2,807,235
3000	Total Fund Balances	<u>\$ 8,998,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,998,987</u>
4000	Total Liabilities and Fund Balances	<u>\$ 10,041,438</u>	<u>\$ 25,565,441</u>	<u>\$ -</u>	<u>\$ 24,375</u>	<u>\$ 35,631,254</u>

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2017

Total Fund Balances - Governmental Funds	\$	8,998,987
1 The Center uses an internal service fund to charge the costs of certain activities, such as self-insurance, printing/copying, technology infrastructure, housing and capital maintenance to appropriate functions in other funds. The assets, deferred outflows of resources, liabilities and deferred inflows of resources of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		2,514,739
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets were \$15,528,990 and the accumulated depreciation was \$8,693,944. In addition, long-term liabilities are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The beginning compensated absences was \$104,063. The net effect is to increase net position.		6,730,983
3 Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2017 capital outlay expenditures is to increase net position.		120,566
4 Included in the items related to debt is the recognition of the Center's proportionate share of the net pension liability, as well as deferred inflows of resources and deferred outflows of resources required by GASB 68. At the beginning of the year, the net pension liability was \$13,122,459, deferred outflows of resources was \$7,938,911 and deferred inflows of resources was \$2,405,593. The net effect is to decrease net position.		(7,589,141)
5 Changes in the net pension liability (\$436,486), deferred inflows of resources \$1,623,300 and deferred outflows of resources (\$2,326,800) per GASB 68. The net effect is to decrease net position.		(1,139,986)
6 The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(306,776)
7 Other reclassifications necessary to convert from the modified accrual basis of accounting to accrual basis of accounting - change in compensated absences. The net effect is to decrease net position.		(4,269)
19 Net Position of Governmental Activities	\$	<u><u>9,325,103</u></u>

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	Special Revenue Fund	50 Debt Service Fund	60 Capital Projects Fund	98 Total Governmental Funds
REVENUES:					
5700 Total Local and Intermediate Sources	\$ 18,117,964	\$ 4,163,956	\$ -	\$ -	\$ 22,281,920
5800 State Program Revenues	2,125,584	5,123,648	-	-	7,249,232
5900 Federal Program Revenues	889,534	45,855,763	-	-	46,745,297
5020 Total Revenues	<u>21,133,082</u>	<u>55,143,367</u>	<u>-</u>	<u>-</u>	<u>76,276,449</u>
EXPENDITURES:					
Current:					
0011 Instruction	2,049,909	3,598,700	-	-	5,648,609
0012 Instructional Resources & Media Services	2,614,653	3,327,394	-	-	5,942,047
0013 Curriculum & Instructional Staff Development	6,405,557	17,393,154	-	-	23,798,711
0021 Instructional Leadership	184,632	567,123	-	-	751,755
0033 Health Services	-	10,250	-	-	10,250
0041 General Administration	2,879,516	134,836	-	-	3,014,352
0051 Facilities Maintenance and Operations	815,972	629,026	-	-	1,444,998
0053 Data Processing Services	3,711,858	707,290	-	-	4,419,148
0061 Community Services	18,382	-	-	-	18,382
0062 School District Administrative Support Services	2,106,696	5,396,416	-	-	7,503,112
Debt Service:					
0073 Other Debt Service Fees - Loan Origination Costs	-	-	10,000	-	10,000
Capital Outlay:					
0081 Facilities Acquisition & Construction	-	-	-	103,961	103,961
Intergovernmental:					
0093 Payments to Member Districts of SSAs	186	23,379,178	-	-	23,379,364
6030 Total Expenditures	<u>20,787,361</u>	<u>55,143,367</u>	<u>10,000</u>	<u>103,961</u>	<u>76,044,689</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>345,721</u>	<u>-</u>	<u>(10,000)</u>	<u>(103,961)</u>	<u>231,760</u>
OTHER FINANCING SOURCES (USES):					
7915 Operating Transfer from General Fund	-	-	10,000	103,961	113,961
8911 Operating Transfer to Debt Service Fund	(10,000)	-	-	-	(10,000)
8911 Operating Transfer to Capital Projects Fund	(103,961)	-	-	-	(103,961)
7080 Total Other Financing Sources (Uses)	<u>(113,961)</u>	<u>-</u>	<u>10,000</u>	<u>103,961</u>	<u>-</u>
8912 Special Item Use (Note P)	(125,470)	-	-	-	(125,470)
1200 Net Change in Fund Balances	106,290	-	-	-	106,290
0100 Fund Balance - September 1 (Beginning)	8,892,697	-	-	-	8,892,697
3000 Fund Balance - August 31 (Ending)	<u>\$ 8,998,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,998,987</u>

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2017

Total Net Change in Fund Balances - Governmental Funds \$ 106,290

The Center uses internal service funds to charge the costs of certain activities, such as self-insurance, printing/copying, technology infrastructure, housing and capital maintenance to appropriate functions in other funds. The change in fund net position of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position. 762,296

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide statements. The net effect of removing the 2017 capital outlays is to increase net position. 120,566

Depreciation is not recognized as expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. (306,776)

GASB 68 requires that net pension liability, deferred outflows of resources and deferred inflows of resources be adjusted yearly for contributions made after the measurement date, amortization of prior years' deferred outflows/inflows of resources, recognizing current year pension expense and current year unamortized amounts for deferred outflows/inflows of resources. The change in net pension liability was (\$436,486), deferred inflows of resources \$1,623,300 and deferred outflows of resources (\$2,326,800). The net effect is a decrease in the change of net position. (1,139,986)

Other reclassifications necessary to convert from the modified accrual basis of accounting to accrual basis of accounting - change in compensated absences. The net effect is to decrease net position. (4,269)

Change in Net Position of Governmental Activities \$ (461,879)

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
AUGUST 31, 2017

	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,678,897
Due from Other Governments	74,352
Total Current Assets	2,753,249
Long-Term Assets:	
Furniture and Equipment	335,345
Accum. Depreciation on Furniture and Equipment	(189,610)
Total Long-Term Assets	145,735
Total Assets	2,898,984
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Teacher Retirement System	81,251
Total Deferred Outflows of Resources	81,251
LIABILITIES	
Current Liabilities:	
Accounts Payable	173,211
Due to Other Governments	375
Accrued Expenses	29,704
Unearned Revenues	50,472
Total Current Liabilities	253,762
Long-Term Liabilities:	
Net Pension Liability	200,675
Total Long-Term Liabilities	200,675
Total Liabilities	454,437
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Teacher Retirement System	11,059
Total Deferred Inflows of Resources	11,059
NET POSITION	
Investment in Capital Assets	145,735
Unrestricted	2,369,004
Total Net Position	\$ 2,514,739

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED AUGUST 31, 2017

	Internal Service Fund
<hr/>	
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 3,665,240
Total Operating Revenues	<u>3,665,240</u>
OPERATING EXPENSES:	
Payroll Costs	1,114,090
Professional and Contracted Services	1,259,091
Supplies and Materials	214,240
Other Operating Costs	252,036
Depreciation	63,488
Total Operating Expenses	<u>2,902,945</u>
Operating Income	<u>762,295</u>
Change in Net Position	762,295
Total Net Position - September 1 (Beginning)	1,752,444
Total Net Position - August 31 (Ending)	<u>\$ 2,514,739</u>

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED AUGUST 31, 2017

	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 235,378
Cash Received from Interfund Services Provided	3,446,622
Cash Payments to Employees for Services	(1,114,090)
Cash Payments for Suppliers	(1,716,226)
Net Cash Provided by Operating Activities	<u>851,684</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisitions of Capital Assets	(6,043)
Net Cash (Used) for Capital & Related Financing Activities	<u>(6,043)</u>
Net Increase in Cash and Cash Equivalents	845,641
Cash and Cash Equivalents at Beginning of the Year	1,833,256
Cash and Cash Equivalents at the End of the Year	<u>\$ 2,678,897</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income	\$ 762,295
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	63,488
Effect of Increases and Decreases in Assets, Deferred Out- flows of Resources, Liabilities & Deferred Inflows of Resources:	
(Increase) in Receivables	(33,711)
Decrease in Unrealized Expenses	5,130
Decrease in Deferred Outflows of Resources	34,706
(Decrease) in Accounts Payable	(13,358)
Increase in Unearned Revenues	50,472
(Decrease) in Deferred Inflows of Resources	(24,734)
Increase in Net Pension Liability	7,396
Net Cash Provided by Operating Activities	<u>\$ 851,684</u>

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017

	Kathleen Boswell Scholarship Private-Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 1,876	\$ 787
Total Assets	<u>1,876</u>	<u>787</u>
LIABILITIES		
Accounts Payable	-	787
Total Liabilities	<u>-</u>	<u>\$ 787</u>
NET POSITION		
Net Position Held in Trust for Scholarships	1,876	
Total Net Position	<u>\$ 1,876</u>	

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUND
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

	Kathleen Boswell Scholarship Private-Purpose Trust Fund
ADDITIONS	
Gifts and Contributions	\$ 1,176
Total Additions	1,176
DEDUCTIONS	
Scholarships Awarded	2,215
Total Deductions	2,215
Change in Net Position	(1,039)
Net Position - Beginning of Year	2,915
Net Position - End of Year	\$ 1,876

The accompanying notes are an integral part of this basic financial statement.

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Board of Directors (the "Board") is elected by the public, and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the Education Service Center Region 10 (the Center) is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement 14, as amended by GASB Statement No's. 39 and 61. There are no component units included within the reporting entity.

The Center is a public educational agency operating under the applicable laws and regulations of the State of Texas. The Center prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

New Pronouncements

GASB Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" provides the accounting rules and reporting requirements for employers and is effective for financial statements beginning after June 15, 2016. This statement addresses the financial reporting for OPEB plans that are administered through irrevocable trusts and is replacing GASB Statement No. 43. This statement will apply to the plan reporting of the Teacher Retirement System's Care Program, an insurance program available to TRS retirees.

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension" provides guidance for improving accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It is similar to GASB 68 "Accounting and Financial Reporting for Pensions" that was implemented a few years ago but instead of the focus being on the net pension liability, the liability now shifts to the Teacher Retirement System's Care Program, an insurance program for retirees. This employer reporting statement becomes effective for financial statements beginning after June 15, 2017.

GOVERNMENTAL FUNDS

General Fund - The Center accounts for financial resources used for general operations in this fund. Any unassigned fund balances are considered resources available for current operations.

Special Revenue Fund - The Center uses a single special revenue fund to account for resources restricted to, or designated for, specific purposes by a grantor. The Center budgets the special revenue fund on an annual basis and uses project accounting in order to maintain integrity for the various sources of funds.

Debt Service Fund - The Center accounts for bank loan origination costs in this fund for future borrowings related to renovations of the Center's buildings. The bank loan origination costs as well as any principal and interest payments are funded by operating transfers from the General Fund.

Capital Projects Fund - The Center accounts for the architect fees, construction manager fees, and renovations of its buildings in this fund. The costs for renovating the buildings are funded by operating transfers from the General Fund, Special Revenue Fund and bank financing.

PROPRIETARY FUND

Internal Service Fund - The Center uses a single internal service fund to account for revenues and expenses for services provided to internal departments such as print shop, insurance, housing, capital maintenance, and technology infrastructure.

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

FIDUCIARY FUNDS

Trust Fund – The private-purpose trust fund is used to account for assets held by the Center in a trustee capacity. The Center uses a single private-purpose trust fund that is used for scholarships for support staff to further their education.

Agency Fund – The agency fund is used to account for contributions made by employees, in a custodial capacity, to fund Center events that are designed for the benefits of employees.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government Wide Financial Statements - The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all Center non-fiduciary activities with most of the interfund activities removed. Although interfund activities have been removed, the interfund services provided and used are not eliminated in the process of consolidation. *Governmental activities* include programs supported primarily by program revenues such as fees to school districts for workshops and cooperatives participation, State and Federal grants, and other intergovernmental revenues. These governmental activities present a comparison between direct expenses and these program revenues for each function of the Center. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Center does not allocate indirect expenses in the Statement of Activities; indirect expenses are included in the program expense reported for individual functions. The Center has no *business-type activities* that rely, to a significant extent, on fees and charges for support. The Statement of Activities demonstrates how other entities, including school districts that participate in programs the Center operates, have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the Center. Examples include services provided to school districts, tuition and fees, etc. The "grants and contributions" column includes amounts paid by organizations outside the Center to help meet the operational or capital requirements of a given function. Examples include grants/contracts under the Elementary and Secondary Education Act and IDEA B. If revenue is not program revenue, it is general revenue used to support all of the Center's functions.

Governmental Funds Financial Statements - Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, deferred inflows or outflows of resources and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are mature (when due). The Center considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of services offered to school districts and are recognized under the susceptible to accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

If revenues received from State funds exceed the related expenditures, the excess of revenues over expenditures is recorded as unearned revenue for that fund. Federal revenues are recognized as the expenditures are incurred. If balances have not been expended by the end of the project period, grantors sometimes require the Center to refund all or part of the unused allocations.

The Center considers the general fund, special revenue fund, debt service fund and capital projects fund as major funds and reports their financial condition and results of operations separately.

Proprietary Fund - The Proprietary Fund Type is accounted for on a flow of economic resources measurement focus and utilizes the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the Statement of Net Position. The fund net position is segregated into Investment in Capital Assets and Unrestricted.

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

Fiduciary Funds – The private-purpose trust fund and the agency fund in the Fiduciary Funds Type are accounted for using the economic resources measurement focus and the accrual basis of accounting. Since the resources in the fiduciary funds are in a trustee or custodial capacity and cannot be used for Center operations, they are not included in the government-wide statements.

OTHER POLICIES

1. For purposes of the statement of cash flows for the proprietary fund, the Center considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The Center has included detail of receivables in Note C but feels sufficient detail for payable balances are provided in the financial statements to avoid the obscuring of significant components by aggregation. There are no significant receivables that are not scheduled for collection within one year of year-end.
3. In the governmental funds, supplies are recorded as expenditures when they are purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as unrealized expenditures in the governmental funds and as unrealized expenses in the government-wide financial statements using the purchases method.
4. In the government-wide financial statements and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position.
5. Those employees exempt under the Fair Labor Standards Act are not eligible to receive payment of accrued vacation days when exiting employment from the Center. Non-exempt employees will be paid for any unpaid vacation when exiting employment from the Center. The Center's unused vacation liability for all eligible employees at August 31, 2017 was \$108,332.

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

6. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental type activities column in the government-wide financial statements. Capital assets are defined by the Center as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value on the date of donation.
 - a. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.
 - b. Buildings, furniture and equipment of the Center are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Building Improvements	20
Furniture & Equipment	5-20
Vehicles	5

7. During the year ended August 31, 2017, employees of the Center were covered by a “Cafeteria Plan” under Section 125 of the Internal Revenue Code of 1954. The Plan covers salary reduction for medical and dental insurance, life insurance and dependent care. Each month the Center contributed the employee-only costs for the lowest level plan and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers. The Plan was authorized by Section 21.922, Texas Education Code, or Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.
8. In the General Fund, the non-spendable portion of fund balance on Exhibit C-1 equals the unrealized expenditures included in assets which do not represent expendable available financial resources. Commitments are self-imposed legal constraints of fund balance to be utilized for specific purposes by the Center through board vote, the highest level of decision making authority. Committed fund balance is reported pursuant to Board approval as well as any modifications or rescindments of those commitments. Assigned fund balance is the intent to use resources that are neither restricted nor committed for a specific purpose and are earmarked by the Executive Director of the Center. Unassigned fund balance is the residual classification of the General Fund after non-spendable, restrictions, commitments and assignments are made; it’s the spendable portion of the general fund balance.
9. When the Center incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used. Of the unrestricted assets, the Center uses commitments first, before any unassigned amounts.
10. The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the Resource Guide. TEA requires the Center to display these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.
11. During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as “due from other funds” and “due to

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

other funds” on the governmental funds balance sheet. These amounts are expected to be paid and/or received within the next year.

12. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.
13. The valuation of investments for those funds invested in TexPool and Lone Star are the same as the value of the Pool’s shares. The valuation of investments for those funds invested in U.S. Treasury Notes is calculated at current market value as of August 31, 2017.
14. Unearned revenues are payments received in 2016-2017 from school districts/charter schools for services to be performed in 2017-2018 as well as prepayments of certain local special revenue funds received prior to August 31, 2017. Any unearned revenue in 2016-2017 will be reported as revenue in 2017-2018.

COMPLIANCE AND COMPATIBILITY

1. Finance-Related Legal and Contractual Provisions

There were no finance-related legal and contractual provisions as of August 31, 2017.

2. Deficit Fund Balance or Net Position of Individual Funds

There were no funds having deficit fund balances or net position at August 31, 2017.

INTERFUND ACTIVITY

Interfund activities within governmental funds appear as due from/due to on the Governmental Fund Balance Sheet and as other resources/other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. Although all duplicated interfund transactions among governmental funds and between governmental funds and the proprietary fund are eliminated on the government-wide statements, the underlying revenue/expense for the services remains the same.

PENSIONS

The fiduciary net position of the Teacher Retirement System of Texas (TRS) 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 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.

On the Statement of Activities, pension expense was allocated to various functions based on the amount of employer contributions for each function. The employer contributions consist of federal grants, Non-OASDI, new members and any pension surcharge for reported retirees.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" went into effect during the 2014-2015 year. Part of the statement refers to recording a deferred outflow and a deferred inflow of resources as it pertains to the net pension liability. See Note I below for further detail.

B. DEPOSITS AND INVESTMENTS

The funds of the Center (includes governmental, proprietary and fiduciary funds) must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. During 2016-2017, letters of credit were issued to protect Center funds on a day-to-day basis, as allowed by the Public Funds Investment Act. If the need arises for any additional collateral, the depository bank may increase the letter of credit or place approved pledged securities for safekeeping and trust with the Center's agent bank in an amount sufficient to protect Center funds on any amount above the letters of credit. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Center to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Center to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the Center to have an independent auditor perform test procedures related to investment practices as provided by the Act. The Center is in substantial compliance with the requirements of the Act and with local policies.

Statutes authorize the Center to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 Public Funds Investment Act and Chapter 2257 Collateral for Public Funds of the Government Code. The Center's local investment policy identifies what investments the Board of Directors have approved for the Center.

The Center's cash deposits at August 31, 2017, were entirely covered by FDIC insurance and letters of credit. The deposits were collateralized in accordance with Texas Law and were properly secured at all times.

A portion of the Center's temporary cash investments consist of balances held by Texas Local Government Investment Pool (TexPool) and Lone Star Investment Pool (Lone Star), public funds investment pools, as allowed by Center Policy and in accordance with the Public Funds Investment Act of the Texas Education Code, Chapter 2256. The State Comptroller of Public Accounts and the Texas Association of School Boards exercise oversight responsibility over TexPool and Lone Star, respectively. Oversight includes the ability to significantly influence operations, designation of management, and accountability of fiscal matters. The largest investment balances the Center had with TexPool was \$8,439,626 on April 30, 2017 and Lone Star was \$2,458,691 on August 31, 2017.

During the year, two certificates of deposit with Dallas Capital Bank and one with Compass Bank matured. Two of these maturities were used to purchase two new certificates of deposit with Dallas Capital Bank and the other was deposited into TexPool. All certificates of deposit are fully collateralized with letters of credit from Federal Home Loan Bank of Dallas as well as FDIC insurance.

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

Below is the detail of activity for the certificates of deposit during the year:

	Interest Rate	Maturity Date	Beginning Balance	Purchased/ Annual Interest (Matured)	Ending Balance
<u>Dallas Capital Bank</u>					
Certificate of Deposit	0.55%	1/29/2017	\$ 2,011,061	\$ (2,011,061)	\$ -
Certificate of Deposit	0.65%	7/29/2017	2,013,078	(2,013,078)	-
Certificate of Deposit	0.75%	1/29/2018	2,000,000	15,056	2,015,056
Certificate of Deposit	1.05%	7/30/2018	-	2,016,662	2,016,662
Certificate of Deposit	1.10%	7/30/2018	-	2,000,000	2,000,000
Total Dallas Capital Bank			<u>\$ 6,024,139</u>	<u>\$ 7,579</u>	<u>\$ 6,031,718</u>
<u>Compass Bank</u>					
Certificate of Deposit	0.55%	7/29/2017	\$ 2,000,000	\$ (2,000,000)	\$ -
Total Compass Bank			<u>\$ 2,000,000</u>	<u>\$ (2,000,000)</u>	<u>\$ -</u>

The Center's temporary investments in TexPool, Lone Star and Dallas Capital Bank at August 31, 2017, are shown below:

Name	Carrying Amount	Fair Value	Category
TexPool	\$ 4,479,178	\$ 4,479,178	Not Categorized
Lone Star	2,458,691	2,458,691	Not Categorized
CD's - Current	6,031,718	6,031,718	Not Categorized
Total	<u>\$ 12,969,587</u>	<u>\$ 12,969,587</u>	

The Center categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Center's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Center values its FDIC insured certificates of deposit using Level 1 inputs. Lone Star Investment Pool and TexPool Investment Pool balances are valued at net asset value per unit/share.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. The Center participates in the following public funds investment pools:

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

a. Lone Star Investment Pool

The Lone Star Investment Pool (Lone Star) is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's. The Center is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of \$1.00 per unit. Lone Star has three different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of \$1.00 per unit and the Corporate Overnight Plus maintains a net asset value of \$0.50 per unit.

b. TexPool Investment Pool

The Texas Local Government Investment Pool ("TexPool Portfolios") is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the TexPool Portfolios. Pursuant to the TexPool Participation Agreement, administrative and investment services to the TexPool Portfolios are provided by Federated Investors, Inc., under an agreement with the Comptroller, acting on behalf of the Trust Company. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in the TexPool Portfolios and other persons who do not have a business relationship with the TexPool Portfolios who are qualified to advise the TexPool Portfolios. The TexPool Portfolios are comprised of two investment alternatives: TexPool (which the Center is invested in) and TexPool Prime. Both funds seek to maintain a net asset value of \$1.00 value per unit and both are rated AAAM by Standard & Poor's.

GASB Statement No. 40 requires a determination as to whether the Center was exposed to the following specific investment risks at year-end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The Center's policy is that prior to handling investments on behalf of the Center, brokers/dealers must submit required written documents in accordance with law. Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC) and be in good standing with the National Association of Securities Dealers. At year-end, the Center was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Center's name.

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Center's name. It is the Center's policy to retain receipts providing proof of the Center's ownership. At year-end, the Center was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single user. At year-end, the Center was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. According to the Center's investment policy, direct investments shall be purchased with the intent to hold to maturity as the primary method of controlling interest rate risk. To further reduce exposure to changes in interest rates that could adversely affect the value of investments the Center shall use final and weighted average maturity limits and diversification. The Center shall monitor interest rate risk using weighted average maturity and specific identification. Because it is the Center's policy to hold to maturity, the Center was not exposed to interest rate risk at year-end.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the Center was not exposed to foreign currency risk.

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

- a. Depository: Compass Bank – Dallas
- b. Time Deposits (CD's): Dallas Capital Bank & Compass Bank – Dallas
- c. For Compass Bank, the highest combined balances of cash and time deposit accounts amounted to \$10,307,986 and occurred during the month of March 2017. For Dallas Capital Bank, the highest combined balances of time deposit accounts amounted to \$6,031,718 and occurred during the months of July and August 2017.
- d. As of the date of the highest combined balances, the Center had \$11,500,000 in letters of credit with Compass Bank and \$6,016,662 with Dallas Capital Bank.
- e. In addition to the letters of credit, the total amount of FDIC coverage at the time of the highest combined balance at Compass Bank and Dallas Capital Bank was \$250,000 each.

C. DUE FROM OTHER GOVERNMENTS

At the end of the year, the Center had receivables due from other governments for services provided to school districts and charter schools and receivables due from the state or federal government for grant reimbursements. The amounts due from other governments at August 31, 2017 consisted of the following:

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

Due from School Districts/Charter Schools/ESCs	\$	764,920
Due from Texas Education Agency		13,989,994
Due from Other Governments (Head Start, Tx Dept of Agriculture)		1,606,930
Due from Other Entities (Individuals, Other)		<u>169,886</u>
	\$	<u>16,531,730</u>

D. INTERFUND RECEIVABLES AND PAYABLES

At the end of the year, there were interfund receivables and payables between individual fund balances. Cash in the General Fund was used to offset the negative cash in the Special Revenue Fund of \$4,759,268 for reporting purposes. The interfund receivables and payables at August 31, 2017 consisted of the following:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 4,759,268	\$ -
Special Revenue Fund	<u>-</u>	<u>4,759,268</u>
Total	<u>\$ 4,759,268</u>	<u>\$ 4,759,268</u>

Interfund balances have been eliminated for the government-wide financial statements.

E. UNREALIZED EXPENDITURES

The unrealized expenditures in the governmental funds consist of payments made in the current or prior years that will be recognized as expenditures in future years. The unrealized expenditures for the Center as of August 31, 2017, which totaled \$108,258, were as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Fingerprinting Services	\$ 7,561	\$ 195
Teacher Job Network - Winocular Software	82,068	-
Postage	13,518	-
Registration/Travel	<u>231</u>	<u>4,685</u>
	<u>\$ 103,378</u>	<u>\$ 4,880</u>

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the Center for the year ended August 31, 2017, was as follows:

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Governmental Activities:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 785,863	\$ -	\$ -	\$ 785,863
Total Capital Assets Not Being Depreciated	<u>785,863</u>	<u>-</u>	<u>-</u>	<u>785,863</u>
Capital Assets Being Depreciated:				
<u>Governmental Capital Assets:</u>				
Buildings and Improvements	11,093,500	-	-	11,093,500
Furniture and Equipment	3,649,627	16,606	-	3,666,233
Construction Work in Progress	-	103,961	-	103,961
Total Governmental Capital Assets				
Being Depreciated, at Historical Cost	<u>14,743,127</u>	<u>120,567</u>	<u>-</u>	<u>14,863,694</u>
Less Accumulated Depreciation:				
Buildings and Improvements	5,224,659	212,993	-	5,437,652
Furniture and Equipment	3,469,285	93,783	-	3,563,068
Total Accumulated Depreciation	<u>8,693,944</u>	<u>306,776</u>	<u>-</u>	<u>9,000,720</u>
Total Governmental Capital Assets				
Being Depreciated, Net	<u>6,049,183</u>	<u>(186,209)</u>	<u>-</u>	<u>5,862,974</u>
<u>Internal Service Fund Capital Assets:</u>				
Furniture and Equipment	329,301	6,043	-	335,344
Total Internal Service Fund Capital Assets				
Being Depreciated, at Historical Cost	<u>329,301</u>	<u>6,043</u>	<u>-</u>	<u>335,344</u>
Less Accumulated Depreciation:				
Furniture and Equipment	126,123	63,488	-	189,611
Total Accumulated Depreciation	<u>126,123</u>	<u>63,488</u>	<u>-</u>	<u>189,611</u>
Total Internal Service Fund Capital Assets				
Being Depreciated, Net	<u>203,178</u>	<u>(57,445)</u>	<u>-</u>	<u>145,733</u>
Governmental Activities Capital Assets, Net (Total of Governmental Capital Assets & Internal Service Fund Capital Assets)	<u>\$ 7,038,224</u>	<u>\$ (243,654)</u>	<u>\$ -</u>	<u>\$ 6,794,570</u>

Depreciation expense was charged to governmental functions as follows:

	Governmental Funds	Proprietary Fund
Instruction	\$ 4,002	\$ -
Instructional Resources and Media Services	37,723	5,702
Curriculum and Instructional Staff Development	88,358	-
General Administration	16,212	-
Facilities Maintenance and Operations	76,995	1,458
Data Processing Services	76,807	56,328
School District Administrative Support Services	6,679	-
	<u>\$ 306,776</u>	<u>\$ 63,488</u>

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

G. COMMITMENTS UNDER LEASES

Operating Lease – Governmental Fund

In 2011-2012, the Center entered into an operating lease for a new postage machine that ended July 30, 2017. The Center paid three quarterly payments of \$1,368 each and a final payment of \$1,303, resulting in a current year operating lease expenditure of \$5,407.

Beginning August, 2017, the Center entered into a new operating lease for a new postage machine that ends July, 2022. The quarterly payment on this new operating lease will be \$1,174 or \$4,696 annually.

Operating Leases – Proprietary Fund

In December 2013, commitments under operating leases for Xerox equipment were re-negotiated for upgrading equipment in the Print Shop with a new lease term beginning January 1, 2014 and ending December 31, 2018. Operating lease expenses for this equipment were \$11,532 per month or \$138,384 annually.

The Center also had an operating lease with Xerox for new walk-up copiers that ended December 31, 2016. Operating lease expenses for these copiers were \$2,004 per month or \$8,016 total for 2016-2017.

In January 2017, the Center entered into a new operating lease with Xerox for the walk-up copiers. The operating lease for these copiers had a start date of January 1, 2017 and ends December 31, 2019. Operating lease expenses for these copiers were \$1,684 per month or \$20,208 annually. The total charged for the eight months in 2016-2017 was \$13,472.

The following is a schedule of future minimum payments remaining under the non-cancelable operating leases at August 31, 2017.

Year Ending August 31,	Payment Amount
2018	\$ 163,288
2019	71,032
2020	11,432
2021	4,696
2022	4,305
Future Lease Payments	<u>\$ 254,753</u>

H. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Compensated Absences	\$ 104,063	\$ 34,313	\$ (30,044)	\$ 108,332	\$ 5,417
Total Governmental Activities					
Long-term Liabilities	<u>\$ 104,063</u>	<u>\$ 34,313</u>	<u>\$ (30,044)</u>	<u>\$ 108,332</u>	<u>\$ 5,417</u>

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

For long-term liabilities other than debt, the General Fund and Special Revenue Fund are used to pay these liabilities.

I. DEFINED BENEFIT PENSION PLAN

Plan Description – The Center (employer) 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 has the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on the plan are irrevocable,
- Pension plan assets are dedicated to providing pensions to plan members in accordance with benefit terms, and
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. Plan assets are also legally protected from creditors of the plan members.

TRS’s defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pensions’ 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.

At August 31, 2016 (fiscal year ending 2017 is not available), the number of participating entities in the TRS were 1,332 which consisted of public school districts, charter schools, community and junior colleges, senior colleges and universities, regional service centers, medical schools, other education districts and state agencies. Total membership at this same time was 1,503,940.

Pension Plan Fiduciary Net Position - Detail information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on TRS’ website www.trs.texas.gov/ under TRS Publications; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2016 Comprehensive Annual Financial Report for TRS is the following information regarding the Pension Plan fiduciary net position as of August 31, 2016.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 171,797,150,487
Less: Plan Fiduciary Net Position	<u>(134,008,637,473)</u>
Net Pension Liability	<u>\$ 37,788,513,014</u>
 Net Position as Percentage of Total Pension Liability	 78.00%

Benefits Provided - TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member’s age and years of credited service equals 80 or

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on the date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description 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 thru 2017. The 83rd Texas Legislature, General Appropriations Act established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act established the employer contribution rates for fiscal years 2016 and 2017.

	2015	2016	2017
Member (Center employees)	6.7%	7.2%	7.7%
The Center (New Member, Federal Grants)	6.8%	6.8%	6.8%
Non-Employer Contributing Entity (NECE) - State	6.8%	6.8%	6.8%
2017 Member Contributions			\$ 1,863,321
2017 Center Contributions			\$ 714,291
2016 NECE On-Behalf Contributions			\$ 897,489

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

As the non-employer contributing entity 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.

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

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, charter school or regional education service center 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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2115
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Benefit Changes During the Year	None
Ad hoc Post-employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 14, 2015.

Discount Rate – The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System’s target asset allocation as of August 31, 2016 are summarized below:

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
The Center's proportionate share of the net pension liability	\$ 21,295,256	\$ 13,759,620	\$ 7,367,877

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At August 31, 2017, the Center reported a liability of \$13,759,620 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Center. The amount recognized by the Center as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Center were as follows:

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

The Center's proportionate share of the collective net pension liability	\$ 13,759,620
State's proportionate share that is associated with the Center	<u>10,653,059</u>
Total	<u>\$ 24,412,679</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2015 through August 31, 2016.

At August 31, 2016 the Center's proportion of the collective net pension liability was 0.0364122% which was a decrease of .0012575% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended measurement period August 31, 2016, the Center recognized pension expense of \$1,105,534 and revenue of \$897,489 for support provided by the State.

At August 31, 2017, the Center reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 215,748	\$ 410,853
Changes in actuarial assumptions	419,369	381,398
Difference between projected and actual investment earnings	1,165,136	-
Changes in proportion and difference between the Center's contributions and the proportionate share of contributions	2,815,720	1,101
Contributions paid to TRS subsequent to the measurement date	<u>1,077,390</u>	<u>-</u>
Total	<u>\$ 5,693,363</u>	<u>\$ 793,352</u>

The net amounts of the Center's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31,	Amount
2018	\$ 677,033
2019	677,033
2020	1,420,214
2021	619,929
2022	390,934
Thereafter	37,476

At August 31, 2017, the Center recorded a payable of \$92,575 for the outstanding amount of Center, non-TRS Care contributions to the pension plan required for August 2017.

J. RETIREE HEALTH PLAN

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

Plan Description - The Center contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

Funding Policy – The TRS-Care program is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and Center contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district/education service center payroll. Per Texas Insurance Code, Chapter 1575, the Center contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the Center. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the following table for fiscal years 2017-2015.

Contribution Rates and Amounts

Year	State		Active Member		Center	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	1.00%	\$ 241,990	0.65%	\$ 157,293	0.55%	\$ 133,094
2016	1.00%	\$ 245,780	0.65%	\$ 159,757	0.55%	\$ 135,179
2015	1.00%	\$ 230,172	0.65%	\$ 149,612	0.55%	\$ 124,682

K. LITIGATION

There is not any pending litigation as of August 31, 2017.

L. ON-BEHALF PAYMENTS

GASB Statement No. 24 affects school district/education service centers accounting for pensions. Direct payments made by a paying entity on behalf of a third-party recipient which relate to fringe benefits or salaries (“on-behalf payments”), must be recognized as revenues and expenditures/expenses by the recipient. As a result, payments (contributions) made by the state (the “paying entity”) to the Teacher Retirement System of Texas (TRS) on behalf of a school district/education service center (a “third party”) must be recorded as equal revenues and expenditures/expenses of the school district/education service center. The Center recognized on-behalf revenues and expenditures of \$934,222 which is recorded in the General Fund.

The Medicare Modernization Act of 2003 created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy program which were made available in 2006. TRS-Care is offering a Medicare Part D plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare D and the Retiree Drug Subsidy program, TRS-Care receives payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

entity. The amount allocated on behalf to the Center for the years ended August 31, 2017, 2016, and 2015 were \$110,506, \$96,202 and \$98,091 respectively.

M. RISK MANAGEMENT

The Center is exposed to various risks of loss to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the Center purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there are no settlements exceeding insurance coverage for each of the past three fiscal years.

N. SHARED SERVICES ARRANGEMENTS

To help districts operate more efficiently and effectively, the Center can enter into a Shared Service Arrangement (SSA) with a district, in which the Center is the fiscal agent. Under these SSA's, all services are provided by the fiscal agent. As the fiscal agent, the Center receives money on behalf of the district, and as the district incurs expenditures, the Center makes payments to the district. As mandated by the Texas Education Agency's *Financial Accountability System Resource Guide*, those payments are to be recorded in Function 93 "Payments to Fiscal Agent/Member District of Shared Service Arrangement" in various special revenue funds.

The Center was fiscal agent of the following SSA's during the year ended August 31, 2017:

Title I, Part A: Improving Basic Programs (Model 1) – to enable schools to provide opportunities for children served to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children

Title I, Part C: Education of Migratory Children (Model 1) – to benefit children of migrant agriculture or agriculture-related workers and children of migrant fishermen

Title II, Part A: Teacher and Principal Training and Recruiting (Model 1) – to improve teacher and principal quality and increase the number of highly qualified teachers in classrooms and highly qualified principals and assistant principals

Title III, Part A: English Language Acquisition, Language Enhancement and Academic Achievement (Model 1) – to improve the education of limited English proficient children, by assisting the children to learn English and meet challenging State academic content and student academic achievement standards

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

Program	FASRG Model	Number of Member Districts	Member Districts	Fiscal Agent	Total
T1, Part A Improving Basic Programs	1	51	\$ 14,733,517	\$ 512,712	\$ 15,246,229
T1, Part C Migrant	1	37	24,977	255,935	280,912
T2, Part A Teacher/Principal Training	1	63	2,572,178	553,219	3,125,397
T3, Part A ELA/Immigrant	1	90	3,588,339	334,827	3,923,166
			<u>20,919,011</u>		
<u>Non-SSA's Paid to Districts:</u>					
Head Start			2,180,157		
IDEA B Visually Impaired			12,200		
State Supplemental Visually Impaired			86,062		
Non-Educational Community Services			99,433		
Texas Lessons Study			82,501		
Total Paid to Districts			<u>\$ 23,379,364</u>		

O. INSURANCE COVERAGE

Workers Compensation

During the year ended August 31, 2017, the Center met its statutory workers' compensation obligations through participation in the Texas Association of School Boards (TASB) Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2016 (2017 not yet available), the Fund carries a discounted reserve of \$51,843,324 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2017, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin, Texas.

The total premium paid to TASB during 2016-2017 was \$62,989 for full insurance coverage including claims administrative costs. The associated costs are accounted for in the Internal Service Fund and allocated to all funds. The total charge made by the Internal Service Fund to the other funds is based on rates as determined by the Center and will be adjusted over time so that the Internal Service Fund revenues and expenses are approximately equal. These costs are reported as interfund transactions and are treated as operating revenues in the Internal Service Fund and as operating expenditures in other funds.

Years ago, the Center terminated its agreement with Claims Administrative Services (CAS) to provide ongoing workers compensation coverage; however, the Center continues to be liable for any unpaid claims from prior years.

EDUCATION SERVICE CENTER REGION 10
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2017

These prior year claims are paid by CAS, the third party administrator, acting on behalf of the Center under terms of the contractual agreement. Administrative fees are included within the provisions of that agreement. According to the state statute, the Center is protected against unanticipated claims and aggregate loss by coverage carried through Midwest Employers Casualty Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Coverage was in effect for specific and aggregate occurrences exceeding \$300,000. Pool participants are responsible for claims up to this limit. The Center pays CAS \$600 per open claim per year for administrative costs going forward, plus the ongoing costs of the open claims. For prior years, the Center is still liable for its own claims costs and its share of pool participants' claims costs, up to the Center's loss fund maximum for that prior year.

GASB Statement No. 10 establishes accounting and reporting standards for all insurance-related activities. CAS is a risk pool comprised of school districts and other education service centers to share in the cost of workers compensation claims. At the end of each fiscal year, CAS distributes a report detailing the total amount of unpaid claims. The Center records the liability and related expense in the internal service fund. The total amount of unpaid claims as of August 31, 2017 consists of plan years 1999-00 through 2007-2008 and summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance as of September 1, beginning	\$ 26,478	\$ 32,722
Incurred Claims:		
Provisions for insured events for prior years	<u>4,509</u>	<u>(4,340)</u>
	4,509	(4,340)
Payments:		
Claims attributable to insured events for prior years	<u>1,782</u>	<u>1,904</u>
	<u>1,782</u>	<u>1,904</u>
Balance as of August 31, ending	<u>\$ 29,205</u>	<u>\$ 26,478</u>

Auto, Liability and Property Programs

During the year ended August 31, 2017, the Center participated in the following Fund programs:

- Auto Liability
- Auto Physical Damage
- Legal Liability
- Privacy & Information Security
- Property

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, the Fund anticipates that the Center has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following

EDUCATION SERVICE CENTER REGION 10
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

year. The Funds' audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin, Texas.

Unemployment Compensation Pool

During the year ended August 31, 2017, the Center provided unemployment compensation coverage to its employees through participation in the Fund. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2017, the Fund anticipates that the Center has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Funds' audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin, Texas.

P. SPECIAL ITEM – IRS EMPLOYMENT TAX AUDIT

Beginning in fiscal year 2014-2015, the Internal Revenue Service (IRS) began a lengthy employment tax audit of calendar year 2013. The main points of discussion were worker classification issues and the payment of stipends to teachers participating in ESC trainings. The Center employed a substantial number of independent contractors to perform services such as training, coaching, and tutoring with independence in how the work was to be performed. The IRS disagreed with the Center's classification of these workers and determined that many of them should have been classified as part time employees. The IRS also asserted that the Center was a third party payer on behalf of the school district when making stipend payments to district employees. The IRS determined that funds for teacher stipend payments must be sent to the employing school district and paid as wages included on the employee's W-2.

The IRS assessed employment taxes related to their findings but did not assess interest or penalties as an acknowledgement that the Center had made a good faith effort to classify workers appropriately and to report all payments made to the IRS on 1099's. Although the Center was not in agreement with many of the IRS findings, it was necessary to negotiate a settlement in order to close the audit. During the 2016-2017 fiscal year, a settlement was agreed upon to pay the IRS \$125,470 for employment taxes.

The Center has changed its procedures in determining the independent contractor versus employee status and has hired many of the contractors as irregular part-time employees. The Center has also decreased its use of stipend payments and changed its procedure for non-employee stipends by flowing funds to the school districts to pay the individuals through payroll.

EDUCATION SERVICE CENTER REGION 10
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Final Budget
		Original	Final		Variance Positive or (Negative)
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 17,477,376	\$ 18,483,947	\$ 18,117,964	\$ (365,983)
5800	State Program Revenues	2,011,728	2,046,655	2,125,584	78,929
5900	Federal Program Revenues	839,110	839,110	889,534	50,424
5020	Total Revenues	20,328,214	21,369,712	21,133,082	(236,630)
EXPENDITURES:					
Current:					
0011	Instruction	2,419,581	2,119,872	2,049,909	69,963
0012	Instructional Resources & Media Services	2,634,698	2,858,680	2,614,653	244,027
0013	Curriculum & Instructional Staff Development	6,601,715	6,841,944	6,405,557	436,387
0021	Instructional Leadership	198,700	215,158	184,632	30,526
0041	General Administration	2,790,493	2,913,509	2,879,516	33,993
0051	Facilities Maintenance and Operations	821,217	849,962	815,972	33,990
0053	Data Processing Services	3,571,006	3,787,423	3,711,858	75,565
0061	Community Services	23,700	24,200	18,382	5,818
0062	School District Administrative Support Services	2,168,570	2,299,259	2,106,696	192,563
Intergovernmental:					
0093	Payments to Member Districts of SSAs	1,000	186	186	-
6030	Total Expenditures	21,230,680	21,910,193	20,787,361	1,122,832
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(902,466)	(540,481)	345,721	886,202
OTHER FINANCING USES:					
8911	Operating Transfer to Debt Service Fund	-	(10,000)	(10,000)	-
8911	Operating Transfer to Capital Projects Fund	-	(217,813)	(103,961)	113,852
7080	Total Other Financing Uses	-	(227,813)	(113,961)	113,852
8912	Special Item Use (Note P)	-	(125,470)	(125,470)	-
1200	Net Changes in Fund Balances	(902,466)	(893,764)	106,290	1,000,054
0100	Fund Balance - September 1 (Beginning)	8,892,697	8,892,697	8,892,697	-
3000	Fund Balance - August 31 (Ending)	\$ 7,990,231	\$ 7,998,933	\$ 8,998,987	\$ 1,000,054

EDUCATION SERVICE CENTER REGION 10
 BUDGETARY COMPARISON SCHEDULE
 SPECIAL REVENUE FUND
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Final Budget
		Original	Final		Variance Positive or (Negative)
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 5,361,992	\$ 6,390,802	\$ 4,163,956	\$ (2,226,846)
5800	State Program Revenues	3,533,687	6,287,054	5,123,648	(1,163,406)
5900	Federal Program Revenues	51,007,933	53,586,366	45,855,763	(7,730,603)
5020	Total Revenues	59,903,612	66,264,222	55,143,367	(11,120,855)
EXPENDITURES:					
Current:					
0011	Instruction	3,183,244	3,830,799	3,598,700	232,099
0012	Instructional Resources & Media Services	4,633,248	4,630,548	3,327,394	1,303,154
0013	Curriculum & Instructional Staff Development	15,279,798	21,536,994	17,393,154	4,143,840
0021	Instructional Leadership	674,610	586,776	567,123	19,653
0033	Health Services	20,000	22,319	10,250	12,069
0041	General Administration	119,613	154,413	134,836	19,577
0051	Facilities Maintenance and Operations	618,060	676,602	629,026	47,576
0053	Data Processing Services	652,511	742,039	707,290	34,749
0062	School District Administrative Support Services	5,387,739	5,939,486	5,396,416	543,070
Intergovernmental:					
0093	Payments to Member Districts of SSAs	29,334,789	28,144,246	23,379,178	4,765,068
6030	Total Expenditures	59,903,612	66,264,222	55,143,367	11,120,855
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -

EDUCATION SERVICE CENTER REGION 10
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM
 FOR THE YEAR ENDED AUGUST 31, 2017

	2015	2016	2017
The Center's Proportion of Net Pension Liability	0.0236893%	0.0376697%	0.0364122%
The Center's Proportionate Share of Net Pension Liability	\$ 6,327,740	\$ 13,315,738	\$ 13,759,620
The State's Proportionate Share of the Net Pension Liability associated with the Center	8,494,151	9,546,339	10,653,059
Total	<u>\$ 14,821,891</u>	<u>\$ 22,862,077</u>	<u>\$ 24,412,679</u>
The Center's Covered Payroll	\$ 20,421,872	\$ 23,017,153	\$ 24,577,957
The Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	30.99%	57.85%	55.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.25%	78.43%	78.00%

Note: GASB 68, Paragraph 81 subparagraph (a) requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2014 for year 2015; August 31, 2015 for year 2016, etc.

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

EDUCATION SERVICE CENTER REGION 10
 SCHEDULE OF CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM
 FOR FISCAL YEAR AUGUST 31, 2017

	2015	2016	2017
Contractually Required Contribution	\$ 1,115,415	\$ 1,156,907	\$ 1,077,389
Contribution in Relation to the Contractually Required Contribution	(1,115,415)	(1,156,907)	(1,077,389)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
The Center's Covered Payroll	\$ 23,017,153	\$ 24,577,957	\$ 24,198,973
Contributions as a Percentage of Covered Payroll	4.85%	4.71%	4.45%

Note: GASB 68, Paragraph 81 subparagraph (b) requires that the data in this schedule be presented as of the Center's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 for the respective fiscal years.

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

EDUCATION SERVICE CENTER REGION 10
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2017

A. BUDGET

BUDGETARY DATA

The Center is required to present the adopted and final amended budgeted revenues and expenditures for the General Fund and Special Revenue Fund, both major funds. The Center compares the final amended budget to actual revenues and expenditures. The General Fund budget and the Special Revenue Fund budget reports appear in Exhibit F-1 and Exhibit F-2, respectively, as required supplementary information.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 20, 2016, the Center prepared a budget for the 2016-2017 fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Directors was then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting was given.
3. Prior to September 1, the budget is legally adopted by the Board. Once a budget is approved, it can only be amended at the functional expenditure category and major fund group by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the Center has a policy of careful budgetary control, several amendments were necessary during the year.
4. Each budget is controlled by the budget coordinator within the constraints of the budget amendments approved by the Board. All budget appropriations lapse at year-end unless specifically carried forward to the next fiscal year.

ENCUMBRANCES

Encumbrances for goods or services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. The Center has elected to cancel all outstanding encumbrances at year end for the General Fund and be re-established as new encumbrances in the following year, if needed. For the Special Revenue Fund, encumbrances not canceled at year end are transferred to the subsequent year's budget.

B. DEFINED BENEFIT PENSION PLAN

CHANGES SINCE THE PRIOR ACTUARIAL VALUATION

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

THIS PAGE LEFT BLANK INTENTIONALLY

EDUCATION SERVICE CENTER REGION 10
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Final Budget Variance Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	-	-	-	-
5020	Total Revenues	-	-	-	-
	EXPENDITURES:				
	Current:				
0011	Instruction	-	-	-	-
0012	Instructional Resources & Media Services	-	-	-	-
0013	Curriculum & Instructional Staff Development	-	-	-	-
0021	Instructional Leadership	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	-	-	-	-
0053	Data Processing Services	-	-	-	-
0061	Community Services	-	-	-	-
0062	School District Administrative Support Services	-	-	-	-
	Debt Service				
0071	Principal on Long-Term Debt	-	-	-	-
0072	Interest on Long-Term Debt	-	-	-	-
0073	Other Debt Service Fees - Loan Origination Costs	-	10,000	10,000	-
	Intergovernmental:				
0093	Payments to Member Districts of SSAs	-	-	-	-
6030	Total Expenditures	-	10,000	10,000	-
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(10,000)	(10,000)	-
	OTHER FINANCING SOURCES:				
7915	Operating Transfer from General Fund	-	10,000	10,000	-
	Total Other Financing Sources	-	10,000	10,000	-
1200	Net Changes in Fund Balances	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

EDUCATION SERVICE CENTER REGION 10
 BUDGETARY COMPARISON SCHEDULE
 CAPITAL PROJECTS FUND
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Final Budget Variance Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	-	-	-	-
5020	Total Revenues	-	-	-	-
	EXPENDITURES:				
	Current:				
0011	Instruction	-	-	-	-
0012	Instructional Resources & Media Services	-	-	-	-
0013	Curriculum & Instructional Staff Development	-	-	-	-
0021	Instructional Leadership	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	-	-	-	-
0053	Data Processing Services	-	-	-	-
0061	Community Services	-	-	-	-
0062	School District Administrative Support Services	-	-	-	-
	Capital Outlay:				
0081	Facilities Acquisition & Construction	-	217,813	103,961	113,852
	Intergovernmental:				
0093	Payments to Member Districts of SSAs	-	-	-	-
6030	Total Expenditures	-	217,813	103,961	113,852
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(217,813)	(103,961)	(113,852)
	OTHER FINANCING SOURCES:				
7915	Operating Transfer from General Fund	-	217,813	103,961	(113,852)
	Total Other Financing Sources	-	217,813	103,961	(113,852)
1200	Net Changes in Fund Balances	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

EDUCATION SERVICE CENTER REGION 10
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

	<u>Balance</u> <u>September 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>August 31, 2017</u>
ASSETS				
Cash and Cash Equivalents	\$ 2,473	\$ 8,553	\$ 10,239	\$ 787
Total Assets	<u>2,473</u>	<u>8,553</u>	<u>10,239</u>	<u>787</u>
LIABILITIES				
Accounts Payable	2,473	8,553	10,239	787
Total Liabilities	<u>\$ 2,473</u>	<u>\$ 8,553</u>	<u>\$ 10,239</u>	<u>\$ 787</u>

THIS PAGE LEFT BLANK INTENTIONALLY

STATISTICAL
SECTION

FOR THE FISCAL YEAR ENDED
AUGUST 31, 2017

EDUCATION SERVICE CENTER REGION 10
STATISTICAL SECTION NARRATIVE
AUGUST 31, 2017

Financial Trend Data – Information is needed to help users understand and assess how the Center’s financial position has changed over time. See the following schedules to determine how the Center’s financial position has changed over time:

- Exhibit H-1 Net Position
- Exhibit H-2 Change in Net Position
- Exhibit H-3 Fund Balance – Governmental Funds
- Exhibit H-4 Change in Fund Balance – Governmental Funds

Revenue Capacity Data – Information is needed to help users understand and assess the Center’s ability to generate own-source revenues. See the following schedule to determine the Center’s ability to generate own-source revenue:

- Exhibit H-5 Program Revenue - Charges for Services

Debt Capacity Data – Information is needed to help users understand and assess the Center’s debt burden. See the following schedule of the Center’s debt burden:

- Exhibit H-6 Schedule of Outstanding Debt

Demographic and Economic Information – Information is needed to help users understand the Center’s socioeconomic environment. See the following schedules to understand the Center’s socioeconomic environment:

- Exhibit H-7 Demographic Data
- Exhibit H-8 Demographic Data by Service Center
- Exhibit H-9 Largest Dallas-Ft. Worth Major Employers

Operating Information – Information is needed to help users understand the Center’s operations and resources as well as to provide a context for understanding and assessing its economic condition. See the following schedules to understand the Center’s operations and resources and its economic condition:

- Exhibit H-10 Use of Capital Assets Used in the Operation of Governmental Activities
- Exhibit H-11 Full Time Equivalent by Function
- Exhibit H-12 Demand or Level of Service Indicators

EDUCATION SERVICE CENTER REGION 10
NET POSITION

Last Ten Fiscal Years(1)

Governmental Activities:	2008	2009	2010	2011
Investment in Capital Assets	\$ 11,965,592	\$ 12,730,173	\$ 12,425,782	\$ 11,653,375
Unrestricted	10,836,359	10,921,186	10,094,669	9,611,549
 Total Net Position, Governmental Activities	 \$ 22,801,951	 \$ 23,651,359	 \$ 22,520,451	 \$ 21,264,924

- (1) Information from Region 10's annual financial reports
- (2) GASB 68 - "Accounting and Financial Reporting for Pensions" was implemented during the 2014-2015 fiscal year. This required recording a prior period adjustment for net pension liability of approximately \$7 million

2012	2013	2014	2015	2016	2017
\$ 9,092,291	\$ 8,120,757	\$ 7,707,394	\$ 7,381,696	\$ 7,038,224	\$ 6,794,570
10,153,266	9,687,355	9,568,311	3,443,636	2,748,758	2,530,533
<u>\$ 19,245,557</u>	<u>\$ 17,808,112</u>	<u>\$ 17,275,705</u>	<u>\$ 10,825,332</u>	<u>\$ 9,786,982</u>	<u>\$ 9,325,103</u>

(2)

EDUCATION SERVICE CENTER REGION 10
CHANGE IN NET POSITION

Last Ten Fiscal Years(1)

	2008	2009	2010
Expenses:			
Instruction	\$ 2,536,355	\$ 2,245,530	\$ 3,098,835
Instructional Resources & Media Services	3,132,912	3,212,094	4,796,200
Curriculum and Instructional Staff Development	20,630,430	21,469,889	23,494,768
Instructional Leadership	453,280	406,581	563,536
Health Services	126,611	38,540	19,573
General Administration	1,367,357	1,351,429	1,197,583
Facilities Maintenance & Operations	1,329,913	1,375,987	1,228,460
Data Processing Services	10,323,592	10,992,388	11,501,619
Community Services	-	-	-
School District Administrative Support Services	3,851,464	8,184,503	9,484,588
Debt Service - Principal, Interest, Other Fees	75,543	62,727	90,511
Payments to Member Districts of SSAs	18,576,767	18,079,349	23,611,517
Total Expenses	<u>62,404,224</u>	<u>67,419,017</u>	<u>79,087,190</u>
Program Revenue:			
Charges for Services (Detail on Exhibit H-5)	24,286,029	23,892,380	23,740,107
Operating Grants & Contributions	37,259,961	42,359,834	52,653,971
Net (Expense) Revenue and Changes in Net Position	<u>(858,234)</u>	<u>(1,166,803)</u>	<u>(2,693,112)</u>
Grants & Contributions not Restricted	1,454,962	1,422,978	1,420,316
Investment Earnings	1,285,018	593,233	137,327
Special Item & Capital Asset Adjustment	(29,220)	-	-
	(2)		
Change in Net Position Before Prior Period Adjustment	\$ 1,852,526	\$ 849,408	\$ (1,135,469)
Prior Period Adjustment	38,132	-	4,561
Change in Net Position After Prior Period Adjustment	<u>\$ 1,890,658</u>	<u>\$ 849,408</u>	<u>\$ (1,130,908)</u>

(1) Information from Region 10's annual financial reports

(2) Capital Asset Adjustment - sale of personal property \$20,000; removal of capital assets from ledger for current year disposal (\$49,220)

(3) Prior Period Adjustment - capital asset adjustment in the Internal Service Fund of \$50,168 less GASB 68 implementation (\$7,169,356)

(4) Settlement payment for employment taxes related to Internal Revenue Service audit of 2013 calendar year

2011	2012	2013	2014	2015	2016	2017
\$ 3,764,220	\$ 3,841,986	\$ 4,117,926	\$ 4,695,229	\$ 6,214,832	\$ 7,684,017	\$ 5,918,317
7,798,465	8,965,681	10,221,027	6,209,477	6,343,005	5,927,730	6,010,332
23,057,561	21,049,895	30,034,482	20,057,013	20,668,226	22,443,317	23,067,378
551,530	513,135	632,378	504,754	643,888	647,821	790,023
23,115	20,613	14,667	16,563	16,548	14,010	11,195
1,226,004	1,211,639	1,905,860	2,045,122	2,203,305	2,874,400	3,030,671
1,065,141	1,200,627	1,781,112	1,514,571	1,395,338	1,578,021	1,164,481
11,691,939	10,385,531	6,153,142	5,213,421	4,948,815	4,286,371	4,217,937
-	-	-	-	-	24,664	18,382
10,774,910	7,544,050	7,515,744	8,710,151	7,932,284	7,478,705	7,546,592
73,855	29,574	1,073	-	-	-	10,000
23,114,494	18,244,465	20,941,370	22,362,125	24,557,439	25,777,068	23,379,364
83,141,234	73,007,196	83,318,781	71,328,426	74,923,680	78,736,124	75,164,672
23,606,119	21,415,931	18,745,768	19,224,020	18,491,581	19,129,132	20,409,854
56,702,904	48,549,420	62,485,537	50,602,151	56,104,392	57,519,263	53,361,533
(2,832,211)	(3,041,845)	(2,087,476)	(1,502,255)	(327,707)	(2,087,729)	(1,393,285)
1,448,414	960,424	948,874	938,033	977,944	985,215	941,687
128,270	62,054	53,381	31,815	18,578	64,164	115,189
-	-	-	-	-	-	(125,470)
						(4)
\$ (1,255,527)	\$ (2,019,367)	\$ (1,085,221)	\$ (532,407)	\$ 668,815	\$ (1,038,350)	\$ (461,879)
-	-	(352,224)	-	(7,119,188)	-	-
\$ (1,255,527)	\$ (2,019,367)	\$ (1,437,445)	\$ (532,407)	\$ (6,450,373)	\$ (1,038,350)	\$ (461,879)

(3)

EDUCATION SERVICE CENTER REGION 10
FUND BALANCE - GOVERNMENTAL FUNDS

Last Ten Fiscal Years(1)

FUND BALANCE - GENERAL FUND	2008	2009	2010	2011	2012
<u>Restricted:</u>					
Outstanding Encumbrances	\$ 250,000	\$ 250,000	\$ 250,000	\$ -	\$ -
<u>Nonspendable:</u>					
Unrealized Expenditures	-	-	-	554,989	199,525
<u>Committed/Assigned :</u>					
Improvements for Mainframe Services	2,000,000	2,500,000	1,143,727	-	-
Microcomputer Enhancements	200,000	200,000	200,000	200,000	200,000
Technology/Meeting Room Equipment	56,692	47,000	-	200,000	200,000
Low-Performing Schools Improvements	150,000	150,000	-	-	-
Long-Term Oblig - Xerox/Debt Service/First American	607,330	789,330	789,330	306,501	306,501
Budget Use of Fund Balance	382,050	308,161	1,198,343	1,104,200	1,339,337
On-Line Product Development	210,000	210,000	210,000	210,000	210,000
On-Line Learning Center	150,000	150,000	150,000	-	-
Video Streaming	281,325	281,325	-	-	-
Instructional Products - Marketing	75,000	-	-	-	-
WebCCAT Hosting Fees	-	100,000	-	-	-
Redevelop of Teacher Job Network Website	225,000	-	-	-	-
Program Enhancements	200,000	200,000	132,051	132,051	-
Charter Schools	96,000	-	-	-	-
Digital Media Licenses	250,000	250,000	250,000	250,000	250,000
Develop/Delivery of Alternate Training Methodology	75,000	75,000	75,000	75,000	75,000
Development of New Products	50,000	50,000	28,476	-	-
Math/Science Consultant - Teacher Prep/Certification	-	100,000	-	-	-
Develop Teacher Effectiveness Scale	-	100,000	100,000	100,000	100,000
Student Technology Initiative	-	-	-	100,000	-
Building Improvements	-	200,000	200,000	300,000	800,000
Research and Development	-	200,000	200,000	400,000	400,000
<u>Unassigned</u>	3,738,125	3,143,340	3,356,381	3,774,057	3,711,224
 Total Fund Balance - General Fund	 \$ 8,996,522	 \$ 9,304,156	 \$ 8,283,308	 \$ 7,706,798	 \$ 7,791,587

(1) Information from Center's annual financial reports

	2013	2014	2015	2016	2017
\$	-	\$	-	\$	-
	86,561	91,731	98,955	101,415	103,378
	-	-	-	-	-
	200,000	200,000	200,000	200,000	200,000
	350,000	250,000	250,000	250,000	-
	-	-	-	-	-
	220,680	135,000	135,000	135,000	135,000
	1,369,203	1,412,565	1,061,034	902,466	582,335
	210,000	210,000	210,000	210,000	210,000
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	250,000	190,000	190,000	-	-
	75,000	75,000	75,000	75,000	75,000
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	1,000,000	1,000,000	1,500,000	1,500,000	2,886,039
	600,000	1,000,000	1,500,000	2,500,000	2,000,000
	3,270,297	3,464,203	3,499,477	3,018,816	2,807,235
\$	7,631,741	\$ 8,028,499	\$ 8,719,466	\$ 8,892,697	\$ 8,998,987

EDUCATION SERVICE CENTER REGION 10
CHANGE IN FUND BALANCE -
GOVERNMENTAL FUNDS

Last Ten Fiscal Years(1)

	2008	2009	2010	2011	2012
REVENUE:					
Local & Intermediate Sources	\$ 25,621,864	\$ 25,555,103	\$ 25,016,549	\$ 24,838,182	\$ 22,884,258
State Program Sources	5,960,887	6,784,192	8,975,943	11,972,653	10,026,682
Federal Program Sources	32,754,031	36,998,620	45,098,344 (2)	46,178,666	39,483,162
Total Revenue	64,336,782	69,337,915	79,090,836	82,989,501	72,394,102
EXPENDITURES:					
Instruction	2,540,099	2,242,476	3,095,984	3,764,407	3,835,149
Instructional Resources & Media Services	3,092,532	3,167,030	4,812,140	7,836,526	8,937,144
Curriculum & Instructional Staff Development	20,425,448	22,238,565	24,244,601	23,833,021	22,150,082
Instructional Leadership	453,280	406,581	563,536	561,637	511,114
Health Services	126,611	38,540	19,573	23,115	20,613
General Administration	1,520,848	1,234,371	1,239,790	1,333,068	1,071,205
Facilities Maintenance & Operations	1,679,650	1,604,367	1,684,388	2,088,119	1,647,883
Data Processing Services	10,719,145	12,008,174	11,967,699	10,208,608	7,538,392
Community Services	-	-	-	-	-
School District Administrative Support Services	3,873,910	8,339,869	9,448,387	10,736,058	7,521,660
Debt Service - Principal on Long-Term Debt	307,969	364,317	685,721	788,031	1,202,853
Debt Service - Interest on Long-Term Debt	78,680	66,016	93,959	77,470	41,361
Debt Service - Loan Origination Costs	-	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-	-
Payments to Member Districts of SSAs	18,576,767	18,079,349	23,611,517	23,114,494	18,244,464
Total Expenditures	63,394,939	69,789,655	81,467,295	84,364,554	72,721,920
Excess (Deficiency) of Revenues Over (Under) Expenditures	941,843	(451,740)	(2,376,459)	(1,375,053)	(327,818)
OTHER FINANCING SOURCES (USES):					
Sale of Real and Personal Property	20,000	2,000	2,500	31,033	-
Proceeds from Capital Leases	-	370,724	961,900	-	-
Transfers In	405,505	508,205	394,900	775,760	420,107
Transfers Out	(18,855)	(121,555)	(8,250)	(8,250)	(7,500)
Total Other Financing Sources (Uses)	406,650	759,374	1,351,050	798,543	412,607
Special Item (Note P)	-	-	-	-	-
Net Change in Fund Balances	\$ 1,348,493	\$ 307,634	\$ (1,025,409)	\$ (576,510)	\$ 84,789
Ratio of Total Debt Expenditures to NonCapital Expenditures	0.62%	0.63%	0.98%	1.03%	1.48%

(1) Information from Center's annual financial reports

(2) Received \$8 million for American Recovery and Reinvestment Act

(3) Received \$10 million from TEA for new Technology Lending Grant

(4) Technology Lending Grant ended during 2013-2014 (\$9.2 million); TALA/TEKS Academies Grants ended 2012-2013 (\$1.5 million); Texas Virtual Schools Network Student Course Fees Grant ended 2012-2013 (\$4.0 million)

2013	2014	2015	2016	2017
\$ 20,045,972	\$ 20,879,279	\$ 20,094,594	\$ 20,724,694	\$ 22,281,920
20,948,762 (3)	6,142,396 (4)	6,687,244	6,519,472	7,249,232
42,485,649	45,397,788	50,395,093	51,422,393	46,745,297
<u>83,480,383</u>	<u>72,419,463</u>	<u>77,176,931</u>	<u>78,666,559</u>	<u>76,276,449</u>
4,119,461	4,714,702	6,356,134	7,288,574	5,648,609
10,178,582	6,176,094	6,314,965	5,846,928	5,942,047
30,876,921	21,300,351	22,305,802	22,953,317	23,798,711
628,109	504,080	663,284	617,189	751,755
14,667	16,563	16,548	14,010	10,250
1,920,410	2,065,854	2,265,308	2,846,177	3,014,352
1,933,064	1,160,493	1,158,776	1,430,991	1,444,998
6,027,438	5,019,193	4,943,973	4,233,684	4,419,148
-	-	-	24,664	18,382
7,501,531	8,720,470	7,942,481	7,460,726	7,503,112
84,748	-	-	-	-
1,073	-	-	-	-
-	-	-	-	10,000
-	-	-	-	103,961
20,941,370	22,362,125	24,557,439	25,777,068	23,379,364
<u>84,227,374</u>	<u>72,039,925</u>	<u>76,524,710</u>	<u>78,493,328</u>	<u>76,044,689</u>
(746,991)	379,538	652,221	173,231	231,760
10,745	17,220	38,746	-	-
-	-	-	-	-
661,545	-	-	-	113,961
(85,145)	-	-	-	(113,961)
<u>587,145</u>	<u>17,220</u>	<u>38,746</u>	<u>-</u>	<u>-</u>
-	-	-	-	(125,470)
<u>\$ (159,846)</u>	<u>\$ 396,758</u>	<u>\$ 690,967</u>	<u>\$ 173,231</u>	<u>\$ 106,290</u>
<u>0.10%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

EDUCATION SERVICE CENTER REGION 10
PROGRAM REVENUE - CHARGES FOR SERVICES

Last Ten Fiscal Years(1)

	2008	2009	2010	2011
Program Revenue - Charges for Services				
Instruction	\$ 447,019	\$ 532,478	\$ 766,401	\$ 964,365
Instructional Resources & Media Services	2,382,747	2,430,437	1,957,949	2,210,401
Curriculum and Instructional Staff Development	6,493,802	4,794,511	6,840,486	6,656,887
Instructional Leadership	-	-	156	61
Health Services	-	-	947	-
General Administration	968,263	919,179	818,910	919,730
Facilities Maintenance & Operations	1,096,633	998,297	954,100	936,478
Data Processing Services	9,044,113	10,689,681	8,736,434	8,055,183
Community Services	-	-	-	-
School District Administrative Support Services	3,768,568	3,458,918	3,402,070	3,465,152
Debt Service - Principal, Interest, Other Fees	2,667	49,079	259,654	396,232
Facilities Acquisition & Construction	-	-	-	-
Payments to Member Districts of SSAs	82,217	19,800	3,000	1,630
Total Program Revenue - Charges for Services	<u>\$ 24,286,029</u>	<u>\$ 23,892,380</u>	<u>\$23,740,107</u>	<u>\$23,606,119</u>

(1) Information from Region 10's annual financial reports

2012	2013	2014	2015	2016	2017
\$ 888,104	\$ 1,089,495	\$ 1,567,816	\$ 1,769,865	\$ 1,825,885	\$ 1,971,139
3,206,963	2,944,126	3,439,706	3,246,982	3,729,766	4,069,917
6,147,662	6,871,269	6,947,825	6,237,133	6,195,675	6,808,539
152	188	396	4,038	44,180	143,506
6,848	-	105	-	-	-
843,076	748,103	1,100,304	1,326,499	1,472,234	1,758,983
888,995	863,188	551,269	517,962	547,274	576,204
6,407,952	3,951,374	2,981,103	2,882,393	2,980,906	2,508,822
-	-	-	-	304	618
2,563,468	2,216,431	2,633,962	2,489,793	2,332,828	2,571,939
450,672	60,121	-	-	-	-
-	-	-	-	-	-
12,039	1,473	1,534	16,916	80	187
<u>\$21,415,931</u>	<u>\$18,745,768</u>	<u>\$19,224,020</u>	<u>\$18,491,581</u>	<u>\$19,129,132</u>	<u>\$20,409,854</u>

EDUCATION SERVICE CENTER REGION 10
SCHEDULE OF OUTSTANDING DEBT

Last Ten Fiscal Years(1)

	2008	2009	2010	2011	2012
Capital Leases (2)	\$ -	\$ 334,732	\$ 948,551	\$ 514,392	\$ 87,229
Construction of New Building (3)	1,414,135	1,091,268	752,785	397,928	-
	<u>\$ 1,414,135</u>	<u>\$ 1,426,000</u>	<u>\$ 1,701,336</u>	<u>\$ 912,320</u>	<u>\$ 87,229</u>
Debt Per Student (4)	<u>\$ 1.99</u>	<u>\$ 1.97</u>	<u>\$ 2.31</u>	<u>\$ 1.22</u>	<u>\$ 0.11</u>

- (1) Information from Region 10's annual financial reports
- (2) Capital leases - mainframe equipment, telephone equipment, postage machine.
Beginning in 2008-2009 and 2009-2010, business accounting software,
folder/insert machine
- (3) Construction of New Building - addition of Abrams Building
- (4) Number of Students in Region from Exhibit H-7
- (5) Remaining \$1,141 debt at August 31, 2013 paid off in 2013-2014

2013	2014	2015	2016	2017
\$ 1,141	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
\$ 1,141	\$ -	\$ -	\$ -	\$ -
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

(5)

EDUCATION SERVICE CENTER REGION 10
DEMOGRAPHIC DATA

Last Ten Fiscal Years

Fiscal Year Ended August 31,	Population Served (1)				
	Number of Districts*	Number of Students	Number of Teacher FTE's	Number of Administrator FTE's	Number of Professional Support Staff FTE's
2008	116	710,590	49,552	3,810	8,313
2009	118	723,432	50,152	3,885	8,636
2010	118	737,043	50,395	3,891	9,251
2011	119	749,836	50,912	3,873	9,538
2012	121	763,593	49,578	3,822	8,923
2013	123	776,920	49,911	3,904	9,069
2014	123	796,020	51,139	3,897	10,063
2015	122	812,655	53,178	4,078	10,974
2016	120	823,914	54,110	4,305	11,475
2017	119	844,896	55,501	4,421	11,945

* Includes Charter Schools

- (1) From TEA's Standard Reports
- (2) Data from Texas Workforce Commission Website
- (3) Data from Greater Dallas Chamber of Commerce (Source: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce)

Unemployment Rate (2)	Population (3)	Total Personal Income (000) (3)	Per Capita Personal Income (3)
5.5%	4,092,693	\$ 188,613,451	\$ 46,085
8.3%	4,178,067	\$ 175,676,555	\$ 42,047
8.4%	4,255,890	\$ 185,682,363	\$ 43,630
8.4%	4,345,790	\$ 197,316,378	\$ 45,404
6.9%	4,426,611	\$ 212,783,723	\$ 48,069
6.0%	4,500,745	\$ 218,696,307	\$ 48,591
5.5%	4,604,097	\$ 237,227,209	\$ 51,525
4.2%	4,707,151	\$ 248,157,463	\$ 52,719
4.0%	4,793,649	\$ 254,456,689	\$ 53,082
3.9%	Not Available	Not Available	Not Available

EDUCATION SERVICE CENTER REGION 10
DEMOGRAPHIC DATA BY SERVICE CENTER

EXHIBIT H-8

Fiscal Year 2017(1)

<u>Education Service Center Number</u>	<u>Number of School Districts*</u>	<u>Number of Students</u>	<u>Number of Teacher FTE's</u>	<u>Number of Administrator FTE's</u>	<u>Number of Professional Support Staff FTE's</u>
I	45	431,028	27,381	2,029	5,764
II	46	101,291	6,618	657	1,184
III	39	54,111	4,001	365	657
IV	87	1,207,773	74,373	5,416	16,195
V	36	82,466	5,605	545	891
VI	62	193,699	12,852	1,077	2,299
VII	102	169,882	12,419	1,257	2,065
VIII	47	61,585	4,910	472	724
IX	37	37,791	2,975	244	445
X	119	844,896	55,501	4,421	11,945
XI	93	587,488	39,038	2,965	7,678
XII	81	173,029	11,997	1,117	2,143
XIII	78	387,891	26,544	2,164	5,451
XIV	43	60,206	4,248	380	722
XV	43	50,296	3,714	314	558
XVI	62	86,393	6,507	528	947
XVII	60	84,706	6,396	582	1,049
XVIII	36	88,400	5,910	497	1,038
XIX	19	179,010	11,317	863	2,804
XX	81	477,186	30,500	2,322	6,782
Totals	<u>1,216</u>	<u>5,359,127</u>	<u>352,806</u>	<u>28,215</u>	<u>71,341</u>

* Includes Charter Schools

(1) From TEA's Standard Reports and Education Directory

THIS PAGE LEFT BLANK INTENTIONALLY

EDUCATION SERVICE CENTER REGION 10
LARGEST DALLAS-FT. WORTH MAJOR EMPLOYERS

Last Nine Fiscal Years(1)
Company, Number Employed and Percent Employed

Fiscal Year Ended August 31,	Rank							
	1	2	3	4	5	6	7	8
2009	Wal-Mart	American	Carlson	Bank of	Baylor Health	Texas Health		Lockheed
	Stores, Inc	Airlines	Restaurants	America	Care System	Resources	AT&T Inc.	Martin
	41,440	24,781	Worldwide	19,999	19,000	18,000	17,485	14,400
1,944,783 Employed	1.42%	0.85%	0.68%	0.65%	0.62%	0.60%	0.49%	0.48%
2010	Wal-Mart	American	Baylor Health	Texas Health		Lockheed	Verizon Comm	HCA North
	Stores, Inc	Airlines	Care System	Resources	AT&T Inc.	Martin	Inc	Texas
	37,100	21,935	18,000	17,485	14,400	14,100	14,000	12,300
1,974,651 Employed	1.88%	1.11%	0.91%	0.89%	0.73%	0.71%	0.71%	0.62%
2011	Wal-Mart	American	Bank of	Baylor	Texas Health		Lockheed	
	Stores, Inc	Airlines	America	Health Care	Resources	AT&T Inc.	Martin	JPMorgan
	34,698	20,684	20,000	System	18,672	17,482	Aeronautics	Chase
2,002,329 Employed	1.73%	1.03%	1.00%	0.98%	0.93%	0.87%	0.74%	0.65%
2012	American	Texas Health	Bank of	Baylor	Lockheed		HCA North	Verizon
	Airlines	Resources	America	Health Care	Martin	JPMorgan	Texas	Comm Inc
	24,888	24,189	20,000	System	Aeronautics	Chase	11,400	10,500
2,071,800 Employed	1.20%	1.17%	0.97%	0.83%	0.72%	0.65%	0.55%	0.51%
2013	American	Bank of	Texas Health	Baylor	Lockheed		JPMorgan	HCA North
	Airlines	America	Resources	Health Care	Martin	AT&T Inc.	Chase	Texas
	24,700	20,000	19,230	System	Aeronautics	15,800	14,126	13,500
2,150,500 Employed	1.15%	0.93%	0.89%	0.80%	0.73%	0.66%	0.63%	0.56%
2014	Texas Health	Bank of	American	Baylor	Lockheed		Texas	Energy
	Resources	America	Airlines	Health Care	Martin	JPMorgan	Instruments Inc	Future
	21,100	20,000	19,219	System	Aeronautics	Chase	14,000	Holdings
2,196,700 Employed	0.96%	0.91%	0.87%	0.77%	0.73%	0.66%	0.64%	0.43%
2015	Wal-Mart	American	Baylor Health	Texas Health	Bank of	JPMorgan	Texas	Lockheed
	Stores	Airlines	Care System	Resources	America	Chase	Instruments	Martin
	52,700	23,700	22,000	16,205	15,400	13,000	13,000	Aeronautics
2,394,700 Employed	2.20%	0.99%	0.92%	0.68%	0.64%	0.54%	0.54%	0.53%
2016	Wal-Mart	American	Texas Health	Baylor Scott	Bank of	Lockheed	Texas	JPMorgan
	Stores	Airlines	Resources	& White	America	Martin	Instruments	Chase
	25,534	25,000	19,131	Health	14,465	Aeronautics	13,700	12,600
2,517,500 Employed	1.01%	0.99%	0.76%	0.67%	0.57%	0.54%	0.52%	0.50%
2017	Wal-Mart	American	Texas Health	Baylor Scott	Lockheed		Texas	JPMorgan
	Stores	Airlines	Resources	& White	Martin	Bank of	Instruments	Chase
	34,000	27,000	22,296	Health	Aeronautics	America	13,000	12,676
2,574,300 Employed	1.32%	1.05%	0.87%	0.64%	0.53%	0.52%	0.50%	0.49%

(1) Data for Dallas-Ft. Worth area for major employers from Dallas Economic Development which receives data from Dallas Business Journal of Lists

Information prior to 2009 not available; Number Employed from the Texas Workforce Commission Website

9	10
---	----

Verizon Comm Inc	HCA North Texas
14,000	12,000
0.48%	0.41%

JPMorgan Chase	Citi
10,000	9,100
0.51%	0.46%

HCA North Texas	Verizon Comm Inc
12,300	11,000
0.61%	0.55%

Tom Thumb Food & Pharmacy	Texas Instruments Inc
10,044	9,300
0.48%	0.45%

Kroger Food Stores	Texas Instruments Inc
10,097	9,100
0.47%	0.42%

United Parcel Service	Target
9,209	8,671
0.42%	0.39%

HCA North Texas Division	Target
11,612	8,671
0.48%	0.36%

HCA North Texas Division	Southwest Airlines
11,612	9,500
0.46%	0.38%

HCA North Texas Division	Southwest Airlines
11,722	9,931
0.46%	0.39%

EDUCATION SERVICE CENTER REGION 10
 USE OF CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
 BY FUNCTION AND ACTIVITY
 AUGUST 31, 2017

Function and Activity	Land	Buildings & Improvements	Furniture & Equipment (1)
September 1, 2016, beginning	\$ 785,863	\$ 11,093,500	\$ 3,978,928
Current Year Data:			
Instruction	-	-	-
Instructional Resources & Media Services	-	-	11,356
Curriculum and Instructional Staff Development	-	-	-
General Administration	-	-	5,249
Facilities Maintenance and Operations	-	-	6,043
Data Processing Services	-	-	-
School District Administrative Support Services	-	-	-
As of August 31, 2017, ending	<u>\$ 785,863</u>	<u>\$ 11,093,500</u>	<u>\$ 4,001,576</u>

(1) Furniture & Equipment category consists of vehicles used for transportation of personnel and supplies; various computer equipment for networking, databases, presentation systems; printing/copying equipment; office furniture for personnel; audio/visual equipment for special education students.

THIS PAGE LEFT BLANK INTENTIONALLY

EDUCATION SERVICE CENTER REGION 10
FULL-TIME EQUIVALENT BY FUNCTION

Last Ten Fiscal Years(1)

Full-Time Equivalent Employees as of August 31,	2008	2009	2010	2011	2012
Governmental Activities					
Instruction	51	42	63	67	74
Instructional Resources & Media Services	13	20	24	28	29
Curriculum and Instructional Staff Development	231	238	246	211	203
Instructional Leadership	3	4	4	4	4
General Administration	19	19	20	18	17
Facilities Maintenance & Operations	11	11	10	11	12
Data Processing Services	72	72	71	72	50
School District Administrative Support Services	26	24	22	25	26
Total Governmental Activities	<u>426</u>	<u>430</u>	<u>460</u>	<u>436</u>	<u>415</u>

(1) Information from Region 10's payroll records

2013	2014	2015	2016	2017
74	77	120	91	86
32	23	23	39	24
197	193	197	214	244
4	6	4	8	5
21	22	22	29	33
11	10	11	12	10
44	37	35	35	31
28	22	19	19	16
411	390	431	447	449

EDUCATION SERVICE CENTER REGION 10
DEMAND OR LEVEL OF SERVICE INDICATORS

Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014
Percent Students Passing							
(1) Achievement Tests (TAKS thru 2011, STAAR started 2013)							
Reading	91	92	91	91	N/A	82	78
Math	81	84	85	86	N/A	81	78
Writing	93	94	94	93	N/A	65	74
Science	75	79	84	84	N/A	84	80
Social Studies	93	94	96	96	N/A	79	80
All Tests	74	76	74	80	N/A	79	78
Number Participating in Regional Services(2)	685	810	712	541	852	716	817

(1) Data is from Texas Education Agency showing percentage of students in Region 10 passing the Texas Assessment of Knowledge and Skills (TAKS) tests in various subjects thru 2010-2011. Between the years ended 2011 and 2012, significant changes occurred in the Texas system for measuring student performance. An entirely new assessment system, STAAR (State of Texas Assessments of Academic Readiness), was implemented for 2011-2012. During the transition, only raw scores from the new assessments were available with no cut scores set for passing. The 2012 results should serve as a new base from which growth can be compared beginning in 2012-2013. Therefore, there are no scores to report for 2012.

(2) Includes school districts, charter schools, private schools, service centers and other entities participating in areas of: Early Childhood, Special Populations, Personnel & Certification, Teaching & Learning, Digital Learning, Technology & Data and Administrative Services.

<u>2015</u>	<u>2016</u>	<u>2017</u>
79	74	73
83	77	80
74	71	68
80	80	80
80	80	79
79	76	76
795	712	748

THIS PAGE LEFT BLANK INTENTIONALLY

FEDERAL AWARDS

SECTION

FOR THE FISCAL YEAR ENDED

AUGUST 31, 2017



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR • P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 • FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA
A. PAUL FLEMING, CPA

Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

Board of Directors
Education Service Center Region 10
400 E. Spring Valley Road
Richardson, Texas 75081-5199

Members of the Board of Directors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Education Service Center Region 10 (the Center) as of and for the year ended August 31, 2017, 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 8, 2017.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,


Edgin, Parkman, Fleming & Fleming, PC

December 8, 2017



EDGIN, PARKMAN, FLEMING & FLEMING, PC

CERTIFIED PUBLIC ACCOUNTANTS

4110 KELL BLVD., SECOND FLOOR . . . P.O. Box 750
WICHITA FALLS, TEXAS 76307-0750
PH. (940) 766-5550 . . . FAX (940) 766-5778

MICHAEL D. EDGIN, CPA
DAVID L. PARKMAN, CPA
A. PAUL FLEMING, CPA

Independent Auditor's Report

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
Education Service Center Region 10
400 E. Spring Valley Road
Richardson, Texas 75081-5199

Members of the Board of Directors:

Report on Compliance for Each Major Federal Program

We have audited Education Service Center Region 10'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 its major federal programs for the year ended August 31, 2017. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

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 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 the major federal programs. 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 its major federal programs for the year ended August 31, 2017.

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, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major 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 considered to be material weaknesses. However, material weaknesses may exist that may not have 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.

Respectfully submitted,



Edgin, Parkman, Fleming & Fleming, PC

December 8, 2017

THIS PAGE LEFT BLANK INTENTIONALLY

EDUCATION SERVICE CENTER REGION 10
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF AUGUST 31, 2017

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures	(5) Pass-Through To Sub-Recipients
U.S. DEPARTMENT OF EDUCATION				
<u>Passed Through University of Texas at Austin</u>				
Math Collaborative	84.366B	UTA16-000347	96,368	-
Math Collaborative	84.366B	UTA17-000468	32,722	-
Science Collaborative	84.366B	UTA16-000375	91,797	-
Science Collaborative	84.366B	UTA17-000497	26,624	-
Total CFDA Number 84.366			247,511	-
Total Passed Through University of Texas at Austin			247,511	-
<u>Passed Through State Department of Education</u>				
ESEA, Title I, Technical Assistance	84.010A	176101197110010	28,326	-
ESEA, Title I, A, Special Project	84.010A	176101187110001	223,845	-
ESEA, Title I, School Improvement Program ESC Support Focus School	84.010A	176101177110010	94,364	-
SSA - ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101057950	299,901	283,422
SSA - ESEA, Title I, Part A - Improving Basic Programs	84.010A	17610101057950	14,957,028	14,450,095
Total CFDA Number 84.010A			15,603,464	14,733,517
ESEA, Title I, Part C - Education of Migratory Children	84.011A	176150027110010	378,957	-
SSA - ESEA, Title I, Part C - Education of Migratory Children	84.011A	16615001057950	22,511	-
SSA - ESEA, Title I, Part C - Education of Migratory Children	84.011A	17615001057950	271,748	24,977
Total CFDA Number 84.011			673,216	24,977
Special Education Cluster:				
IDEA - Part B, Discretionary	84.027A	166600020579506674	186,861	-
IDEA - Part B, Discretionary	84.027A	176600020579506674	569,627	-
IDEA - Part B, Discretionary Sensory Impairments	84.027A	1666002271110	4,887	-
IDEA - Part B, Discretionary Sensory Impairments	84.027A	176600227110010	102,125	12,200
IDEA - Part B, Leadership	84.027A	176600567110010	3,341,165	-
IDEA - Part B, Positive Behavioral Interventions & Supports	84.027A	176600597110010	314,343	-
IDEA - Part B, Charters	84.027A	176600570579506681	122,114	-
IDEA - Part B, Facilitated IEP	84.027A	176600570579506682	51,000	-
IDEA - Part B, Access to General Curriculum	84.027A	176600587110010	823,142	-
IDEA - Part B, Discretionary Dyslexia Special Project	84.027A	166600557110001	66,790	-
IDEA - Part B, Discretionary Dyslexia	84.027A	166600487110001	19,107	-
IDEA - Part B, Discretionary Dyslexia	84.027A	176600487110001	119,894	-
IDEA - Part B, Literacy & Math	84.027A	176600570579506683	114,848	-
Total CFDA Number 84.027			5,835,903	12,200
IDEA - Part B, Preschool	84.173A	176610227110010	697,087	-
Total CFDA Number 84.173			697,087	-
Total Special Education Cluster			6,532,990	12,200
ESC CTE - Non-Traditional	84.048A	174200127110010	1,329	-
ESC CTE - Performance Based Monitoring/Administration	84.048A	174200117110010	6,090	-
ESC CTE - Admin Technical Assistance	84.048A	174200107110010	67,000	-
ESC CTE - Leadership	84.048A	174200097110010	8,740	-
Carl D. Perkins Basic Formula	84.048A	17420006057950	334,739	-
Carl D. Perkins Basic Formula	84.048A	18420006057950	4,320	-
Total CFDA Number 84.048A			422,218	-
ESEA, Title X, Part C - Education for the Homeless Children and Youth	84.196A	TEA Contract 3456	230,754	-
ESEA, Title X, Part C - Education for the Homeless Children and Youth	84.196A	TEA Contract 3456	660,209	-
ESEA, Title X, Part C - Education for the Homeless Children and Youth	84.196A	174600017110001	4,879,482	-
Total CFDA Number 84.196			5,770,445	-
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	176710027110010	143,083	-
SSA - Title III, Part A - English Lang. Acquisition and Lang. Enhance. - Immigrant	84.365A	17671003057950	275,496	270,043
SSA - Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	16671001057950	122,463	122,463
SSA - Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	17671001057950	3,525,207	3,195,833
Total CFDA Number 84.365A			4,066,249	3,588,339
Title II, Part A - Student Learning Objective Professional Development	84.367A	166945617110010	165,918	-
Title II, Part A - ESC Equity Plan Support	84.367A	166945647110010	25,000	-
SSA - Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	16694501057950	95,348	95,348
SSA - Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	17694501057950	3,030,049	2,476,830
Total CFDA Number 84.367A			3,316,315	2,572,178
Texas Literacy Initiative ESC Collaborative	84.371C	166460547110010	9,758	-
Total CFDA Number 84.371C			9,758	-
Senate Bill 866 - Dyslexia	84.999	TEA Contract 3285	9,660	-
Title III Admin	84.999	176000127120010	2,500	-
No Child Left Behind Support	84.999	176000117120010	173,833	-
Total CFDA Number 84.999			185,993	-

EDUCATION SERVICE CENTER REGION 10
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF AUGUST 31, 2017

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures	(5) Pass-Through To Sub-Recipients
Total Passed Through State Department of Education			36,580,648	20,931,211
TOTAL DEPARTMENT OF EDUCATION			<u>36,580,648</u>	<u>20,931,211</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<u>Direct Programs</u>				
Early Head Start/Head Start	93.600	06CH70920301	249	-
Early Head Start/Head Start	93.600	06CH70920400	9,175,625	2,179,971
Total CFDA Number 93.600			<u>9,175,874</u>	<u>2,179,971</u>
Total Direct Programs			<u>9,175,874</u>	<u>2,179,971</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>9,175,874</u>	<u>2,179,971</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<u>Passed Through State Department of Agriculture</u>				
Education Service Center Child Nutrition	10.560	TDA	49,018	-
Education Service Center Child Nutrition	10.560	TDA	692,246	-
Total CFDA Number 10.560			<u>741,264</u>	<u>-</u>
Total Passed Through State Department of Agriculture			<u>741,264</u>	<u>-</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>741,264</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>46,745,297</u></u>	<u><u>23,111,182</u></u>

EDUCATION SERVICE CENTER REGION 10
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

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

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When such funds are received, they are recorded as revenues since all Federal grants are on an expenditure reimbursement basis.

3. Some grants are assigned CFDA No. 84.999 because they are funded from the Texas Education Agency's consolidated administrative funds.
4. De Minimis Indirect Cost Rate – Entities that receive federal awards for which an indirect cost rate has never been negotiated may elect to charge a de minimis indirect cost rate of ten percent of modified total direct costs. The Center did not elect to charge the de minimis rate to any of its federal awards during the year ended August 31, 2017.

EDUCATION SERVICE CENTER REGION 10
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2017

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the Education Service Center Region 10 was an unmodified opinion.
- b. There were no material weaknesses in internal control disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance that is material to the financial statements of the auditee.
- d. No significant deficiencies in internal control over major programs were disclosed by the audit.
- e. The type of report issued on compliance for major programs was an unmodified opinion.
- f. The audit did not disclose any audit findings required to be reported upon. These include:
 - 1. Significant deficiencies or material weaknesses in internal control over major programs.
 - 2. Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.
 - 3. For a type of compliance requirement for a major program, known questioned costs when likely questioned costs are greater than \$25,000.
 - 4. Known questioned costs greater than \$25,000 for a Federal program that is not audited as a major program.
 - 5. The circumstances concerning why the auditor's report on compliance for major programs is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.
 - 6. Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.
 - 7. Instances where audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.
- g. Major programs consisted of:
 - 1. Head Start (CFDA 93.600)
 - 2. Title II, Part A Cluster (CFDA 84.367A)
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$1,402,359, which is 3% of total federal programs.
- i. The auditee qualified as a low-risk auditee.

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

None

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I(f) Above.

None

EDUCATION SERVICE CENTER REGION 10
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2017

There were no audit findings reported in the prior year audit report which require commentary.

EDUCATION SERVICE CENTER REGION 10
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2017

There were no findings or questioned costs during the current year under audit.

THIS PAGE LEFT BLANK INTENTIONALLY

