



# 2020 Annual Financial Accountability Management Report

For the Fiscal Year Ended August 31, 2019





# 2020 Annual Financial Accountability Management Report

## Contents

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Overview	1
Ratings Worksheet	5
How the Ratings are Assessed	8
Required Disclosures:	
Exhibit A-1: Superintendent’s Current Employment Contract	14
Exhibit A-2: Summary Schedule of Total Reimbursements Received by Superintendent and Each Board Member	25
Exhibit A-3: Compensation and/or Fees Received by Superintendent from Outside Entities for Professional Consulting and/or Other Personal Services	26
Exhibit A-4: Summary Schedule of Total Dollar Amount by Superintendent and Board Members (and First Degree Relatives) of Gifts That Had an Economic Value Exceeding \$100 in the Aggregate	27
Exhibit A-5: Summary Schedule of the Total Dollar Amount by Board Member of Business Transactions with the School District	28
Glossary of Terms	30

School FIRST (Financial Accountability Rating System of Texas) was first developed as the financial accountability system for Texas school districts by the Texas Education Agency in response to Senate Bill 875 of the 76<sup>th</sup> Texas Legislature in 1999. The purpose of the financial accountability rating system is to ensure that school districts will be held accountable for the quality of their financial management practices and achieve improved performance in the management of their financial resources. The system is designed to encourage Texas public schools to manage their financial resources better in order to provide the maximum allocation possible for direct instructional purposes.

The system will also disclose the quality of local management and decision-making processes that impact the allocation of financial resources in Texas public schools. An evaluation of the long-term effectiveness of the system should disclose a measurable improvement in the quality of Texas public schools' financial decision-making processes. The importance of the rating system's goal is underscored by the steadily increasing complexity of the State's funding of public schools compounded by the increasing sophistication of the associated accounting system.

In accordance with Texas Education Code (TEC), Chapter 39, Subchapter D, each school district must be assigned a financial accountability rating by the Texas Education Agency (TEA). The specific procedures for determining financial accountability ratings will be established annually by the Commissioner of Education and communicated to all school districts.

As authorized by House Bill 5, Section 49, of the 83<sup>rd</sup> Texas Legislature, Regular Session, the Commissioner and the Texas Education Agency implemented major changes to the School FIRST system. Beginning with the 2015 report, the changes were phased in over three years.

The fifteen accountability indicators include five critical indicators, seven solvency indicators, and three financial competence indicators. Financial accountability rating indicators for 2020 are based on fiscal year 2018-2019 financial data.

Indicator Category	Number of Indicators
Critical	5
Solvency	7
Financial Competence	3

The five critical indicators do not receive a point value. They are either validated or not. As in the previous system, failure to pass any of the five critical indicators results an automatic rating of "Substandard Achievement". For 2020, Indicator 5 regarding a district's unrestricted net position, was not scored due to the impact of recording the long-term liabilities for pension and post-employment benefits.

Indicators in the solvency and financial competence categories may receive up to ten points. Districts that do not receive a passing score must file a corrective action plan with the Texas Education Agency.

The accountability ratings also changed. In the previous system, districts could be rated with one of five ratings, from “Suspended for Data Quality” to “Superior Achievement”. Beginning with last year’s report, a letter grade of “A” through “F” is assigned depending on the District’s score on the solvency and financial competence indicators and, of course, passing all the critical indicators. The highest possible score on the indicators is 100 points. Any district scoring below 60 points will receive a rating of “Substandard Achievement”. The following chart illustrates the scoring criterion for determination of ratings:

Rating	Points
A = Superior	90 through 100
B = Above Standard	80 through 89
C = Meets Standard	60 through 79
F = Substandard Achievement	< 60
No Rating = A school district receiving territory that annexes with a school district ordered by the commissioner under TEC 13.054, or consolidation under Subchapter H, Chapter 41. No rating will be issued for the school district receiving territory until the third year after the annexation/consolidation.	

The school district receives an “F” if it scores below the minimum passing score, if it failed any critical indicator 1, 3, 4, 5, or 2.A, if the annual financial report or the data were not both complete, or if either the annual financial report or the data were not submitted on time for FIRST analysis.

The commissioner of education may apply sanctions to a district that is assigned a “Substandard Achievement” rating. Additional sanctions could apply if issues arise relating to data quality. Sanctions could result in the assignment of a financial monitor or master by the Texas Education Agency Accountability Department in accordance with Chapter 39 of the Education Code. Additional sanctions could involve an accreditation investigation that could result in specific requirements for improvements in financial management. A lowered rating status resulting from an investigation would remain in effect until the commissioner acknowledges that significant improvement was being made in financial management problem areas.

In December 2007, TEA Adopted 19 TAC Chapter 97, Planning and Accountability Subchapter EE, Accreditation Status, Standards, and Sanctions. The subchapter defined the accreditation statuses and stated how accreditation statuses would be determined and assigned to school districts. In accordance with these rules, TEA will take into consideration a district’s School FIRST rating when assigning an accreditation status. Additionally, a district’s final School FIRST

rating may impact its special education determination status as issued by the TEA under the requirements of the Individuals with Disabilities Education Act (IDEA).

Sanctions may also be applied as a result of data problems of a sufficient magnitude to raise questions about the validity of measurements used in the financial accountability rating system indicators. The district's rating would be suspended if serious, systemic data quality problems occurred.

The Texas Education Agency posts districts' final reports to the Agency's web site. Interested parties are able to print copies of all materials from that source.

On August 6, 2020, the Texas Education Agency posted the district's preliminary School FIRST rating. The School FIRST ratings were based upon an analysis of data reported for the 2018-2019 fiscal year. The District passed all the critical indicators and received a score of 96 out of a possible 100 points for the other indicators, losing two points on both indicators 8 and 11, the District's ratio of long-term liabilities to total assets and the administrative cost ratio.

## **Waco Independent School District's 2020 Rating is "A – Superior"**

Upon notification of the district's rating, the ratings report must be disseminated by a school district to all the district's taxpayers, in addition to the parents and guardians of students. After receipt of the financial accountability rating system report generated by the Texas Education Agency, the district level decision making committee must hold at least one public meeting annually for the purpose of discussing the financial performance of the district and district performance objectives.

The board of trustees shall hold the hearing for public discussion of the annual financial accountability system report within 60 days of receiving the final notification. The board shall notify property owners and parents and guardians in the district of the hearing. The District published notification, as required, in the Waco Tribune-Herald on September 24, 2020, as well as in their online advertising. The public meeting will be held on October 22, 2020.

The board of trustees will publish, or cause to be published, an annual report describing the financial management performance of the district. The report must include the information provided by the Texas Education Agency including the district's financial management performance under each indicator for both the current and previous years' financial accountability ratings.

The financial management report issued at the Schools FIRST hearing must contain certain required disclosures, in accordance with Title 19 Texas Administrative Code, Chapter 109, Budgeting, Accounting, and Auditing, Subchapter AA, Commissioner's Rules Concerning Financial Accountability Rating System. These disclosures include:

1. A copy of the superintendent's current employment contract or other written documentation of employment if no contract exists. This must disclose all compensation and benefits paid to the superintendent. The school district may publish the

superintendent's employment contract on its website instead of publishing it in the annual financial management report.

2. A summary schedule for the fiscal year of expenditures paid on behalf of and/or total reimbursements received by the superintendent and each board member, including transactions resulting from use of the school district's credit card(s) to cover expenses incurred by the superintendent and each board member.
3. A summary schedule for the fiscal year of the dollar amount of compensation and/or fees received by the superintendent from another school district or any other outside entity in exchange for professional consulting and/or other personal services;
4. A summary schedule for the fiscal year of the total dollar amount by the executive officers and board members of gifts that had an aggregate economic value of \$250 or more. This reporting requirement applies only to gifts received from an outside entity that received payments from the school district, in the prior fiscal year and to gifts from competing vendors that were not awarded contracts in the prior fiscal year. This reporting requirement does not apply to reimbursement by an outside entity for travel-related expenses when the purpose of the travel was to investigate matters directly related to the executive officer's or board member's duties or to investigate matters related to attendance at education-related conferences and seminars with the primary purpose of providing continuing education (this exclusion does not apply to trips for entertainment purposes or pleasure trips).
5. A summary schedule for the fiscal year of the dollar amount by board member for the aggregate amount of business transactions with the school district;
6. Any other information the local board of trustees determines to be useful.

A corrective action plan is to be filed with the TEA by each school district that received a rating of "Substandard Achievement".

If you have any questions about the report or need additional financial information about the District, please contact the Chief Financial Officer, Waco I.S.D., 501 Franklin Avenue, Waco, Texas 76701. A copy of this report is available upon request through the Office of Public Information and may be found on the Financial Transparency page of the District's website.

# The Ratings Worksheet

The following pages contain the 2019-2020 School FIRST rating worksheet detailing the District's performance on each of the 15 indicators as published by the Texas Education Agency. The worksheet is followed by an explanation of the indicators and information as to how ratings are assessed as well as a comparison with last year's performance.



## Financial Integrity Rating System of Texas

### 2019-2020 RATINGS BASED ON SCHOOL YEAR 2018-2019 DATA - DISTRICT STATUS DETAIL

<b>Name:</b> WACO ISD (161914)		<b>Publication Level 1:</b> 8/6/2020 9:26:37 AM
<b>Status:</b> Passed		<b>Publication Level 2:</b> 8/6/2020 11:17:34 AM
<b>Rating:</b> A = Superior		<b>Last Updated:</b> 8/6/2020 11:17:34 AM
<b>District Score:</b> 96		<b>Passing Score:</b> 60
#	Indicator Description	Score
1	<u>Was the complete annual financial report (AFR) and data submitted to the TEA within 30 days of the November 27 or January 28 deadline depending on the school district's fiscal year end date of June 30 or August 31, respectively?</u>	Yes
2	Review the AFR for an unmodified opinion and material weaknesses. The school district must pass 2.A to pass this indicator. The school district fails indicator number 2 if it responds "No" to indicator 2.A. or to both indicators 2.A and 2.B.	
2.A	<u>Was there an unmodified opinion in the AFR on the financial statements as a whole? (The American Institute of Certified Public Accountants (AICPA) defines unmodified opinion. The external independent auditor determines if there was an unmodified opinion.)</u>	Yes
2.B	<u>Did the external independent auditor report that the AFR was free of any instance(s) of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds? (The AICPA defines material weakness.)</u>	Yes
3	<u>Was the school district in compliance with the payment terms of all debt agreements at fiscal year end? (If the school district was in default in a prior fiscal year, an exemption applies in following years if the school district is current on its forbearance or payment plan with the lender and the payments are made on schedule for the fiscal year being rated. Also exempted are technical defaults that are not related to monetary defaults. A technical default is a failure to uphold the terms of a debt covenant, contract, or master promissory note even though payments to the lender, trust, or sinking fund are current. A debt agreement is a legal agreement between a debtor (= person, company, etc. that owes money) and their creditors, which includes a plan for paying back the debt.)</u>	Yes

4	<u>Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?</u>	Yes
5	This indicator is not being scored.	
		1 Multiplier Sum
6	<u>Was the number of days of cash on hand and current investments in the general fund for the school district sufficient to cover operating expenditures (excluding facilities acquisition and construction)? (See ranges in following analysis.)</u>	10
7	<u>Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt? (See ranges in following analysis.)</u>	10
8	<u>Was the ratio of long-term liabilities to total assets for the school district sufficient to support long-term solvency? (If the school district's change of students in membership over 5 years was 10 percent or more, then the school district passes this indicator.) (See ranges in following analysis.)</u>	8
9	<u>Did the school district's general fund revenues equal or exceed expenditures (excluding facilities acquisition and construction)? If not, was the school district's number of days of cash on hand greater than or equal to 60 days?</u>	10
10	<u>Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges in following analysis.)</u>	10
11	<u>Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges in following analysis.)</u>	8
12	<u>Did the school district not have a 15 percent decline in the students to staff ratio over 3 years (total enrollment to total staff)? (If the student enrollment did not decrease, the school district will automatically pass this indicator.)</u>	10
13	<u>Did the comparison of Public Education Information Management System (PEIMS) data to like information in the school district's AFR result in a total variance of less than 3 percent of all expenditures by function?</u>	10
14	<u>Did the external independent auditor indicate the AFR was free of any instance(s) of material noncompliance for grants, contracts, and laws related to local, state, or federal funds? (The AICPA defines material noncompliance.)</u>	10
15	<u>Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?</u>	10

		96 Weighted Sum
		1 Multiplier Sum
		96 Score

**DETERMINATION OF RATING**

<b>A.</b>	Did the district answer ' <b>No</b> ' to Indicators 1, 3, 4, 5, or 2.A? If so, the school district's rating is <b>F for Substandard Achievement</b> regardless of points earned.	
<b>B.</b>	Determine the rating by the applicable number of points. (Indicators 6-15)	
	<b>A = Superior</b>	90-100
	<b>B = Above Standard</b>	80-89
	<b>C = Meets Standard</b>	60-79
	<b>F = Substandard Achievement</b>	< 60

## How the Ratings Are Assessed

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The questions a school district must address in completing the worksheet used to assess its financial management system can be confusing to non-accountants. The following is a layman's explanation of what the questions mean – and what our answers can mean to the Waco Independent School District's rating.

Recognition is given to the Texas Association of School Business Officials (TASBO) and the Texas School Public Relations Association (TSPRA) for their joint participation in creating the Schools FIRST Communication Resources Kit, revised August 2016, to assist school districts in publicizing the district's financial rating and complying with Commissioner's rules concerning the Financial Accountability Rating System.

**1. Was the complete annual financial report (AFR) and data submitted to the TEA within 30 days of the November 27 or January 28 deadline depending on the school district's fiscal year end date of June 30 or August 31, respectively?**

A simple indicator, was the Annual Financial Report filed by the deadline?

*The Annual Financial Report for the fiscal year ended August 31, 2019 was approved by the Board of Trustees on January 23, 2020 and received by the Texas Education Agency on January 27, 2020. The Annual Financial Report for the fiscal year ended August 31, 2018 was approved by the Board of Trustees on January 24, 2019 and received by the Texas Education Agency by January 25, 2019.*

**2. Review the AFR for an unmodified opinion and material weaknesses. The school district must pass 2.A to pass this indicator. The school district fails indicator number 2 if it responds "No" to indicator 2.A. or to both indicators 2.A and 2.B.**

A. Was there an unmodified opinion in the AFR on the financial statements as a whole? (The American Institute of Certified Public Accountants (AICPA) defines unmodified opinion. The external independent auditor determines if there was an unmodified opinion.)

An auditor's audit opinion is contained within the audit report. Modified opinions are given for two reasons. The first is scope limitation, which means that the auditor doesn't have access to enough information, or to relevant information. The second is in the circumstance that there is a departure from applicable financial reporting framework, which may be the result of either an accident or negligence on the part of the district. The district's goal, therefore, is to receive an "unmodified opinion" on its Annual Financial Report. This is a simple "Yes" or "No" indicator.

*The opinion expressed by our independent auditors on the Annual Financial Report for both the fiscal years ended August 31, 2019 and August 31, 2018 was unmodified.*

B. Did the external independent auditor report that the AFR was free of any instance(s) of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds? (The AICPA defines material weakness.)

A clean audit of the Annual Financial Report would state that the district has no material weaknesses in internal controls. Any internal weaknesses create a risk of the district not being able to properly account for its use of public funds, and should be immediately addressed.

*The Annual Financial Report for fiscal years ended August 31, 2019 and August 31, 2018 disclosed no material weaknesses in internal control.*

- 3. Was the school district in compliance with the payment terms of all debt agreements at fiscal year end? (If the school district was in default in a prior fiscal year, an exemption applies in following years if the district is current on its forbearance or payment plan with the lender and the payments are made on schedule for the fiscal year being rated. Also exempted are technical defaults that are not related to monetary defaults. A technical default is a failure to uphold the terms of a debt covenant, contract, or master promissory note even though payments to the lender, trust, or sinking fund are current. A debt agreement is a legal agreement between a debtor (person, company, etc. that owes money) and their creditors, which includes a plan for paying back the debt.)**

This indicator seeks to make certain that the district has timely paid all bills and obligations, including any financing arrangements, to pay for school construction, school buses, photocopiers, etc.

*Waco ISD had no disclosures concerning default on bonded indebtedness for the fiscal years ended August 31, 2019 or August 31, 2018.*

- 4. Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?**

This indicator seeks to make sure the district fulfilled its obligation to the TRS, TWC, and IRS to transfer payroll withholdings and to fulfill any additional payroll-related obligations required to be paid by the district.

*Waco ISD made timely payments to the TRS, TWC, IRS, and other government agencies for the fiscal years ended August 31, 2019 and August 31, 2018.*

- 5. Was the total unrestricted net position balance (net of accretion of interest for capital appreciation bonds) in the governmental activities column in the Statement of Net Position greater than zero? (If the school district's change of students in membership over five-years was 10 percent or more, then the school district passes this indicator.)**

This indicator simply asks, "Did the district's total assets exceed the total amount of liabilities (according to the very first financial statement in the annual audit report)?" Fortunately, this indicator recognizes that high-growth districts incur large amounts of debt to fund construction, and that total debt may exceed the total amount of assets under certain scenarios.

*At August 31, 2018, Waco ISD had a total unrestricted net deficit of \$17,523,789 with accumulated accretion of interest for capital appreciation bonds of \$852,125. At August 31, 2018, the total unrestricted net deficit was \$21,437,731 with accumulated accretion of interest for capital appreciation bonds of \$813,962. The deficit net position results from*

*the recording of pension and other post-employment liabilities and the inflows and outflows related to these programs.*

- 6. Was the number of days of cash on hand and current investments in the general fund for the school district sufficient to cover operating expenditures (excluding facilities acquisition and construction)?**

<b>10</b>	<b>8</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>0</b>
>= 90	< 90 >= 75	< 74 >= 60	< 60 >= 45	< 45 >= 30	< 30

This indicator measures how long in days after the end of the fiscal year the school district could have disbursed funds for its operating expenditures without receiving any new revenues. Did you meet or exceed the target amount in School FIRST?

*At August 31, 2019, the District had cash on hand and current investments in the general fund to cover 136.748 days of operating expenditures. At August 31, 2018, the District had cash on hand and current investments in the general fund to cover 138.793 days of operating expenditures.*

- 7. Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt?**

<b>10</b>	<b>8</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>0</b>
>= 3.00	< 3.00 >= 2.50	< 2.50 >= 2.00	< 2.00 >= 1.50	< 1.50 >= 1.00	< 1.00

This indicator measures whether the school district had sufficient short-term assets at the end of the fiscal year to pay off its short-term liabilities. Did you meet or exceed the target amount in School FIRST?

*At August 31, 2019, the District had a ratio of current assets to current liabilities of 3.8769. At August 31, 2018, the District had a ratio of current assets to current liabilities of 3.1979.*

- 8. Was the ratio of long-term liabilities to total assets for the school district sufficient to support long-term solvency? (If the school district's change of students in membership over five years was ten percent or more, then the school district passes this indicator.)**

<b>10</b>	<b>8</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>0</b>
<= 0.60	> 0.60 <= 0.70	> 0.70 <= 0.80	> 0.80 <= 0.90	> 0.90 <= 1.00	> 1.00

This question is like asking someone if their mortgage exceeds the market value of their home. Were you below the cap for this ratio in School FIRST? Fortunately, this indicator recognizes that high-growth districts incur additional operating costs to open new instructional campuses.

*At August 31, 2019, the District has a ratio of long-term liabilities to total assets of 0.6229. At August 31, 2018, the District has a ratio of long-term liabilities to total assets of 0.6504. Although this ratio improved over last year, the District was again only awarded 8 points.*

9. Did the school district’s general fund revenues equal or exceed expenditures (excluding facilities acquisition and construction)? If not, was the school district’s number of days of cash on hand greater than or equal to 60 days? This indicator receives 10 points for passing.

This indicator simply asks, “Did you spend more than you earned?” (the school district will automatically pass this indicator, if the school district had at least 60 days of cash on hand.

*For the fiscal year ended August 31, 2019, the District’s general fund revenues exceeded expenditures (excluding facilities acquisition and construction of \$316,816) by \$6,161,580 and had cash equivalents and current investments to cover 136.748 days of operating expenditures. For the fiscal year ended August 31, 2018, the District’s general fund revenues exceeded expenditures (excluding facilities acquisition and construction of \$1,035,883) by \$923,155 and had cash equivalents and current investments to cover 138.793 days of operating expenditures.*

10. Was the debt service coverage ratio sufficient to meet the required debt service?

10	8	6	4	2	0
$\geq 1.20$	$< 1.20 \geq 1.15$	$< 1.15 \geq 1.10$	$< 1.10 \geq 1.05$	$< 1.05 \geq 1.00$	$< 1.00$

This indicator asks about the school district’s ability to make debt principal and interest payments that will become due during the year. Did you meet or exceed the target amount in School FIRST?

*At August 31, 2019, the District has a debt service coverage ratio of 1.8193. At August 31, 2018, the District’s debt service coverage ratio was 1.4238.*

11. Was the school district’s administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)

ADA Size	10	8	6	4	2	0
10,000 and Above	$\leq 0.0855$	$> 0.0855 \leq 0.1105$	$> 0.1105 \leq 0.1355$	$> 0.1355 \leq 0.1605$	$> 0.1605 \leq 0.1855$	$> 0.1855$
5,000 to 9,999	$\leq 0.1000$	$> 0.1000 \leq 0.1250$	$> 0.1250 \leq 0.1500$	$> 0.1500 \leq 0.1750$	$> 0.1750 \leq 0.2000$	$> 0.2000$
1,000 to 4,999	$\leq 0.1151$	$> 0.1151 \leq 0.1401$	$> 0.1401 \leq 0.1651$	$> 0.1651 \leq 0.1901$	$> 0.1901 \leq 0.2151$	$> 0.2151$
500 to 999	$\leq 0.1311$	$> 0.1311 \leq 0.1561$	$> 0.1561 \leq 0.1811$	$> 0.1811 \leq 0.2061$	$> 0.2061 \leq 0.2311$	$> 0.2311$
Less than 500	$\leq 0.2404$	$> 0.2404 \leq 0.2654$	$> 0.2654 \leq 0.2904$	$> 0.2904 \leq 0.3154$	$> 0.3154 \leq 0.3404$	$> 0.3404$
Sparse	$\leq 0.3364$	$> 0.3364 \leq 0.3614$	$> 0.3614 \leq 0.3864$	$> 0.3864 \leq 0.4114$	$> 0.4114 \leq 0.4364$	$> 0.4364$

TEA and state law sets a standard on the percentage of the budget that Texas school districts can spend on administration. Where did we fall in relationship to that standard for districts of our size?

*The District’s Administrative Cost Ratio was computed at 8.78 percent for the fiscal year ended August 31, 2019 compared to 8.62 percent for the prior year. The rate falls between 8.55 and 11.05 percent, garnering only eight points for this indicator.*

**12. Did the school district not have a 15 percent decline in the students to staff ratio over three years (total enrollment to total staff)? (If the student enrollment did not decrease, the school district will automatically pass this indicator.)**

If the school district had a decline in students over three school years, this indicator asks if the school district decreased the number of the staff on the payroll in proportion to the decline in students. (The school district automatically passes this indicator if there was no decline in students.)

*For the 2018-19 school year, the District had a student to staff ratio of 6.388:1 compared to 6.475:1 in 2016-17. This represents an 1.33% increase in the student to staff ratio over three years. Although enrollment decreased over the three years by 325 students, the percent decline in the students to staff ratio was less than 15% so the District passed the indicator.*

*For the 2017-18 school year, the District had a student to staff ratio of 6.324:1 compared to 6.885:1 in 2015-16, or an 8.15% decrease over the three years.*

**13. Did the comparison of Public Education Information Management System (PEIMS) data to like information in the school district's AFR result in a total variance of less than three percent of all expenditures by function?**

This indicator measures the quality of data reported to PEIMS and in the Annual Financial Report to make certain that the data reported in each case "matches up." If the difference in numbers reported in any fund type is more than three percent, the district "fails" this measure.

*The comparison of the District's PEIMS data to like information in the Annual Financial Report resulted in a variance of 0.00000115 for the fiscal year ended August 31, 2019 compared to a variance of 0.00000085 in the previous year.*

**14. Did the external independent auditor report that the AFR was free of any instance(s) of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds? (The AICPA defines material weakness.)**

The independent auditor's reports include both a report on internal controls over financial reporting and a report in regards to compliance for local, state, and federal funds. Weaknesses in Internal controls create a risk of the district not being able to properly account for its use of public funds, and should be immediately addressed. Likewise, disclosure of noncompliance means that the school district failed to comply with laws, rules, and regulations for a government entity.

*The Annual Financial Report for fiscal years ended August 31, 2019 and August 31, 2018 disclosed no material weaknesses in internal controls over financial reporting or compliance for local, state, or federal funds.*

**15. Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?**

This indicator asks if the district had to ask for an easy payment plan to return monies to TEA after spending the overpayment from the Foundation School Program state aid.

*Although the District was underpaid at August 31, 2019 by \$176,977 which was received in three settle-up payments from October 1, 2019 through June 1, 2020. At August 31, 2018, the District was overpaid by \$1,431,954 but was able to repay the overpayment through a reduction in payments for the 2018-2019 school year without requesting an adjusted schedule. The District did not require an adjusted repayment schedule for amounts owed at August 31, 2019 or August 31, 2018.*

**Superintendent’s Current Employment Contract**

The school district is to provide a copy of the superintendent's employment contract that is effective on the date of the Schools FIRST hearing. In lieu of publication in the Schools FIRST financial management report, the school district may choose to publish the superintendent's employment contract on the school district's Internet site. If published on the Internet, the contract is to remain accessible for twelve months.

**SUPERINTENDENT'S EMPLOYMENT CONTRACT**

STATE OF TEXAS                    §  
   §                   KNOW ALL MEN BY THESE PRESENTS:  
 COUNTY OF MCLENNAN        §

THIS AGREEMENT ("Contract") is made and entered into on the 29th day of August 2019, by and between the Board of Trustees (the "Board") of the Waco Independent School District (the "District") and Dr. Susan Kincannon (the "Superintendent").

WITNESSETH:

NOW, THEREFORE, the Board and the Superintendent, for and in consideration of the terms hereinafter established and pursuant to Section 11.201 of the Texas Education Code, have agreed, and do hereby agree, as follows:

I. Term

1.1 Term. The Board, by and on behalf of the District, does hereby employ the Superintendent, and the Superintendent does hereby accept employment as Superintendent of Schools for the District for a term of approximately three (3) years, commencing on Thursday, September 5, 2019 and ending on June 30, 2022. The District may, by action of the Board, and with the consent and approval of the Superintendent, extend the term of this Contract as permitted by state law.

1.2 No Tenure. The Board has not adopted any policy, rule, regulation, law, or practice providing for tenure. No right of tenure is created by this Contract. No property interest, express or implied, is created in continued employment beyond the Contract term.

## II. Employment

2.1 Duties. The Superintendent is the chief executive of the District and shall faithfully perform the duties of the Superintendent of Schools for the District as prescribed in the job description and as may be lawfully assigned by the Board, and shall comply with all lawful Board directives, state and federal law, district policy, rules, and regulations as they exist or may hereafter be amended. Specifically, it shall be the duty of the Superintendent to recommend for employment all contracted administrative employees of the District subject to the Board's approval. It shall be the further duty of the Superintendent to employ all other personnel consistent with the Board's policies. It shall be the further duty of the Superintendent to direct, assign, reassign, and evaluate all of the employees of the District consistent with Board policies and federal and state law. It shall be the further duty of the Superintendent to organize, reorganize, and arrange the staff of the District, and to develop and establish administrative regulations, rules, and procedures which the Superintendent deems necessary for the efficient and effective operation of the District consistent with the Board's lawful directives, the Board's policies, and state and federal law. It shall be the further duty of the Superintendent to accept all resignations of employees of the District consistent with the Board's policies, except the Superintendent's resignation, which must be accepted by the Board. The Superintendent shall perform the duties of the Superintendent of Schools for the District with reasonable care, diligence, skill, and expertise.

2.2 Professional Certification. The Superintendent shall at all times during the term of this Contract, and any renewal or extension thereof, hold and maintain a valid certificate required of a superintendent by the State of Texas and issued by the State Board for Educator Certification and any other certificates required by law.

2.3 Reassignment. The Superintendent cannot be reassigned from the position of Superintendent to another position without the Superintendent's express written consent.

2.4 Board Meetings. The Superintendent shall attend, and shall be permitted to attend, all meetings of the Board, both public and closed, with the exception of those closed meetings devoted to the consideration of any action or lack of action on the Superintendent's Contract, or the Superintendent's evaluation, or for purposes of resolving conflicts between individual Board members, or when the Board is acting in its capacity as a tribunal. In the event of illness or Board-approved absence, the Superintendent's designee shall attend such meetings.

2.5 Criticisms, Complaints, and Suggestions. The Board, individually and collectively, shall refer all substantive criticisms, complaints, and suggestions called to the Board's attention to the Superintendent for study and appropriate action, and the Superintendent shall investigate such matters and inform the Board of the results of such efforts.

2.6 Indemnification. The District shall defend, hold harmless and indemnify the Superintendent regarding any claims, demands, duties, actions or other legal proceedings against the Superintendent for any act or failure to act involving the exercise of judgment and discretion within the normal course and scope of the Superintendent's duties as Superintendent of the District, to the extent and to the limit permitted by law. This paragraph does not apply if the Superintendent is found to have acted with gross negligence or with intent to violate a person's clearly established legal rights, or to have engaged in criminal conduct. The District may, at its sole discretion, fulfill its obligation under this paragraph by purchasing appropriate insurance coverage for the benefit of the Superintendent. No individual member of the Board shall be personally liable for indemnifying or defending the Superintendent under this paragraph. The District's obligation to indemnify,

defend and hold the Superintendent harmless under this paragraph survives the termination of this Contract.

### III. Compensation

3.1 Salary. The District shall provide the Superintendent with an annual salary in the sum of Two Hundred fifty-two Thousand five hundred and No/100 Dollars (\$252,500.00). This annual salary rate shall be paid to the Superintendent in equal installments consistent with the Board's policies.

3.1.1 Payment of TRS Contribution. The District shall supplement the Superintendent's annual salary by an amount equal to the Superintendent's portion of the monthly member contribution to the Texas Retirement System ("TRS"). This supplement shall include the retirement part of the TRS member contribution, as applicable. This additional salary supplement shall be paid to the Superintendent in regular monthly payroll installments and shall be reported as "creditable compensation" by the District for purposes of TRS, to the extent permitted by TRS. To the extent that the District's payment of this TRS contribution benefit as "creditable compensation" to the Superintendent results in an increase in the amount of the TRS member contribution, the Superintendent shall be responsible to pay the difference.

3.2 Salary Adjustments. The Board may, in its discretion, review and adjust the salary of the Superintendent, but in no event shall the Superintendent be paid less than the salary and TRS Contribution set forth pursuant to Sections 3.1 and 3.1.1 of this Contract except by mutual agreement of the two parties. Such adjustments, if any, shall be made pursuant to a lawful Board resolution. In such event, the parties agree to provide their best efforts and reasonable cooperation to execute a new contract incorporating the adjusted salary.

3.3 Vacation, Holidays, Leave. The Superintendent may take, at the Superintendent's choice, subject to the Board's approval, the greater of ten (10) vacation days annually or the same number of days of vacation authorized by policies adopted by the Board for administrative employees on twelve-month contracts, the days to be in a single period or at different times. The vacation days taken by the Superintendent will be taken at such time or times as will least interfere with the performance of the Superintendent's duties as set forth in this Contract. The Superintendent shall observe the same legal holidays as provided by Board policies for administrative employees on twelve-month contracts. The Superintendent is hereby granted the same personal leave benefits as authorized by Board policies for administrative employees on twelve-month contracts. Any unused vacation days that have accrued during the previous twelve (12) months ending on June 30, shall be carried forward by the Superintendent and will be taken at such time or times as will least interfere with the performance of the Superintendent's duties as set forth in this Contract.

3.4 Health Insurance. The District shall pay the same premiums for hospitalization, major medical and dental insurance coverage for the Superintendent pursuant to the group health care plan provided by the District for its administrative employees.

3.5 Professional Growth. The Superintendent shall devote the Superintendent's time, attention, and energy to the direction, administration, and supervision of the District. The Board, however, encourages the continued professional growth of the Superintendent through the Superintendent's active attendance and participation in appropriate professional meetings at the local, regional, state, and national levels. The Board shall encourage the use of data and information sources, and shall encourage the participation of the Superintendent in pertinent education seminars and courses offered by public or private institutions or by educational associations, as well as the participation in informational meetings with those individuals whose

particular skills, expertise, or backgrounds would serve to improve the capacity of the Superintendent to perform the Superintendent's professional responsibilities for the District. In its encouragement of the Superintendent to grow professionally, the Board shall permit a reasonable amount of release time for the Superintendent, as the Superintendent and Board deem appropriate, to attend such seminars, courses, or meetings. The District shall pay the Superintendent's membership dues to the American Association of School Administrators and the Texas Association of School Administrators, as well as other memberships necessary to maintain and improve the Superintendent's professional skills. The District shall bear the reasonable costs and expenses for such attendance or membership.

3.6 In-District Travel. The District shall provide the Superintendent with an automobile allowance in the sum of Five Hundred and No/100 Dollars (\$500.00) per month.

3.7 Reimbursement for Out-of-District Travel. The District shall reimburse the Superintendent for out-of-District travel incurred by the Superintendent in the continuing performance of the Superintendent's duties under this Contract at the standard mileage rate per mile as established by the Internal Revenue Service during each year of this Contract.

3.8 Personal Protection. Should the life or safety of the Superintendent or her family be threatened or appear to be in danger because of her performance of official duties, the District is authorized, by a subsequent vote of the Board, to pay reasonable costs for the instant protection of the Superintendent and her family. Such protection, if required, will be first sought from regular police authorities.

3.9 Civic and Community. The Superintendent is encouraged to participate in community and civic affairs and the Chamber of Commerce. The expense of such activities, subject to Board approval, shall be borne by the District.

3.10 Professional Legal Liability. The District shall obtain and pay premiums for a professional legal liability insurance policy through the Superintendent's membership with a professional organization.

3.11 Outside Consultant Activities. With the prior written approval of the Board, the Superintendent may serve as a consultant to other school districts or educational agencies, lecture, engage in writing activities and speaking engagements, and engage in other activities that are of a short-term duration, at the expense of the District.

3.12 Moving/Relocation Expense – Reimbursement. In connection with the necessary relocation of the Superintendent and the Superintendent's family to the District, the District shall reimburse the Superintendent for necessary and reasonable expenses incurred in moving the Superintendent's family and belongings from Belton, Texas to a residence located in the District. The Superintendent shall document all expenses for which reimbursement is requested with receipts, cancelled checks or credit card statements and the District shall reimburse the Superintendent for all such necessary and reasonable documented expenses, within thirty (30) days of the District's receipt of such documented expenses.

#### IV. Annual Performance Goals

4.1 Development of Goals. The Superintendent shall submit to the Board each year, for the Board's consideration and adoption, a preliminary list of goals for the District. The goals approved

by the Board shall at all times be reduced to writing and shall be among the criteria on which the Superintendent's performance is reviewed and evaluated.

#### V. Review of Performance

5.1 Time and Basis of Evaluation. The Board shall evaluate and assess in writing the performance of the Superintendent in January of each year during the term of this Contract ("Superintendent's Evaluation"). The Superintendent's Evaluation instrument and process shall be developed and/or revised with input from the Superintendent and shall be reasonably related to the duties of the Superintendent as outlined in the Superintendent's job description.

5.2 Confidentiality. Unless the Superintendent expressly requests otherwise in writing, the Superintendent's Evaluation shall at all times be conducted in executive session and shall be considered confidential to the extent permitted by law. Nothing herein shall prohibit the Board or the Superintendent from sharing the content of the Superintendent's Evaluation with their respective legal counsel.

5.3 Evaluation Format and Procedures. The evaluation format and procedure shall be in accordance with the evaluation instrument selected by the Board in accordance with the provisions of Article V of this Contract, the Board's policies, and state and federal law. In the event the Board deems that the evaluation instrument, format and/or procedure is to be modified by the Board, such modification must be adopted at least 12 months prior to its implementation.

#### VI. Renewal or Nonrenewal of Employment Contract

6.1 Renewal/Nonrenewal. Renewal or nonrenewal shall be in accordance with Board policy and applicable law. Notwithstanding anything to the contrary in Section 21.212(a) of the Texas Education Code, the Superintendent shall be entitled to written notice, containing reasonable

notice of the reason for the proposed nonrenewal, not later than 365 days before the last day of the Contract term, containing reasonable notice of the reason(s) for the proposed nonrenewal of the Superintendent's Contract with the District.

VII. Termination of Employment Contract

7.1 Mutual Agreement. This Contract shall be terminated by the mutual agreement of the Superintendent and the Board in writing, upon such terms and conditions as may be mutually agreed upon.

7.2 Retirement or Death. This Contract shall be terminated upon the retirement or death of the Superintendent.

7.3 Dismissal for Good Cause. The Board may dismiss the Superintendent during the term of the contract for good cause. The term "good cause" is defined as follows:

- (a) Failure to fulfill duties or responsibilities as set forth under the terms and conditions of this Contract;
- (b) Incompetence or inefficiency in the performance of required or assigned duties as documented by evaluations, supplemental memoranda, or other written communication from the Board; provided, however, the terms and conditions of the paragraph shall not justify good cause unless the Board has provided the Superintendent a reasonable opportunity to remediate any incompetency or inefficiency;
- (c) Insubordination or failure to comply with lawful written Board directives;
- (d) Failure to comply with the Board's policies or the District's administrative regulations;
- (e) Neglect of duties;
- (f) Drunkenness or excessive use of alcoholic beverages;
- (g) Illegal use of drugs, hallucinogens, or other substances regulated by the Texas Controlled Substances Act;
- (h) Conviction of a felony or crime involving moral turpitude;
- (i) Failure to meet the District's standards of professional conduct;

- (j) Failure to comply with reasonable District professional development requirements regarding advanced course work or professional development;
- (k) Disability, not otherwise protected by law, that impairs performance of the required duties of the superintendent;
- (l) Immorality, which is conduct the Board determines is not in conformity with the accepted moral standards of the community encompassed by the District. Immorality is not confined to sexual matters, but includes conduct inconsistent with rectitude or indicative of corruption, indecency, or depravity;
- (m) Assault on an employee or student;
- (n) Knowingly falsifying records or documents related to the District's activities;
- (o) Conscious misrepresentation of facts to the Board or other District officials in the conduct of the District's business;
- (p) Failure to fulfill requirements for superintendent certification;
- (q) Failure to fulfill the requirements of a deficiency plan under an Emergency Permit; or
- (r) Any other reason constituting "good cause" under Texas law.

7.4 Termination Procedure. In the event that the Board proposes to terminate and/or terminates this Contract for "good cause," the Superintendent shall be afforded all the rights as set forth in the Board's policies, and state and federal law.

#### VIII. Miscellaneous

8.1 Controlling Law. This Contract shall be governed by the laws of the State of Texas and shall be performable in McLennan County, Texas, unless otherwise provided by law.

8.2 Complete Agreement. This Contract embodies the entire agreement between the parties hereto and cannot be varied except by written agreement of the undersigned parties, except as expressly provided herein.

**Exhibit A-1**  
**Superintendent's Current Employment Contract**


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8.3 Conflicts. In the event of any conflict between the terms, conditions, and provisions of this Contract and the provisions of the Board's policies, or any permissive state or federal law, then, unless otherwise prohibited by law, the terms of this Contract shall take precedence over the contrary provisions of the Board's policies or any such permissive law during the term of the Contract.

8.4 Savings Clause. In the event any one or more of the provisions contained in this Contract shall, for any reason, be held to be invalid, illegal, or unenforceable, such invalidity, illegality, or unenforceability shall not affect any other provision thereof, and this Contract shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein. All existing agreements and contract, both verbal and written, between the parties hereto regarding the employment of the Superintendent have been superseded by this Contract, and this Contract constitutes the entire agreement between the parties unless amended pursuant to the terms of this Contract.

8.5 Acceptance. This offer will expire unless signed and returned to the Board President or Board Secretary by 5:00 p.m. on the 30th day of August 2019.

Board of Trustees of the  
Waco Independent School District

By:   
\_\_\_\_\_  
Angela Tekell, President

  
\_\_\_\_\_  
Dr. Susan Kincannon, Superintendent

ATTEST:  
  
\_\_\_\_\_  
Norman Manning, Secretary

**Superintendent's Current Employment Contract**

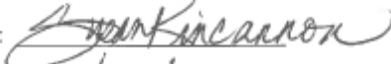
**Salary Addendum to Superintendent's Contract**

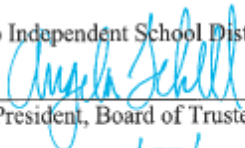
The Board of Trustees (the "Board") of WACO INDEPENDENT SCHOOL DISTRICT and DR. SUSAN KINCANNON (the "Superintendent") agree to amend the Superintendent's Contract (the "Contract") approved by the Board on August 29, 2019 (with an effective date of September 5, 2019) and extended and amended by the Board on February 27, 2020, as follows:

Paragraph 3.1 Salary is changed to increase the annual salary by 1% from the sum of Two Hundred fifty-two Thousand five hundred and No/100 Dollars (\$252,500.00) to the sum of Two Hundred fifty-five Thousand twenty-five and No/100 Dollars (\$255,025.00).

The Board and the Superintendent agree that there have been no oral modifications to the Superintendent's Contract. All other terms and conditions of the Contract, as amended, shall remain in full force and effect.

I have read this Addendum and agree to abide by its terms and conditions:

Superintendent:   
Date signed: 7/27/20

Waco Independent School District  
By:   
President, Board of Trustees  
Date signed: 7/29/20

**Exhibit A-2**

**Summary Schedule of Total Reimbursements Received by Superintendent  
and Each Board Member**

**For the Twelve-Month Period Ended August 31, 2019**

Description of Reimbursements	Meals	Lodging	Transportation	Motor Fuel	Other	Total
Superintendent:						
Dr. Marcus Nelson	\$ 757	\$ 571	\$ 3,629	\$ -	\$ 11,812	\$ 16,769
Dr. Susan Kincannon	\$ -	\$ -	\$ -	\$ -	\$ -	-
Board Members:						
Pat Atkins	191	1,071	-	-	375	1,637
Cary DuPuy	264	571	287	-	375	1,497
Robin Houston	-	-	-	-	-	-
Stephanie Korteweg	251	1,083	237	-	375	1,946
Norman Manning	251	1,074	237	-	735	2,297
Larry Perez	389	1,664	406	-	735	3,194
Allen Sykes	264	1,098	237	-	375	1,974
Angela Tekell	277	1,668	339	-	740	3,024
Jose Vidana	13	1,077	102	-	555	1,747

*All "reimbursements" expenses, regardless of the manner of payment, including direct pay, credit card, cash, and purchase order are to be reported. Items to be reported per category include:*

*Meals – Meals consumed out of town, and in-district meals at area restaurants (outside of board meetings, excludes catered board meeting meals).*

*Lodging - Hotel charges.*

*Transportation - Airfare, car rental (can include fuel on rental, taxis, mileage reimbursements, leased cars, parking and tolls).*

*Motor fuel – Gasoline.*

*Other - Registration fees, telephone/cell phone, internet service, fax machine, and other reimbursements (or on-behalf of) to the superintendent and board member not defined above.*

**Exhibit A-3**

**Compensation and/or Fees Received by Superintendent from Outside Entities  
for Professional Consulting and/or Other Personal Services**

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**For the Twelve-Month Period Ended August 31, 2019**

<b>Name(s) of Entity(ies)</b>	<b>Amount Received</b>
None	\$ -

*Compensation does not include business revenues generated from a family business (farming, ranching, etc.) that has no relation to school district business.*

**Exhibit A-4**

**Summary Schedule of Total Dollar Amount of Superintendent and Board Members (and First Degree Relatives) of Gifts That Had an Economic Value Exceeding \$250 in the Aggregate**

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**For the Twelve-Month Period Ended August 31, 2019**

	<b>Total</b>
<b>Superintendent:</b>	
Dr. Marcus Nelson	\$ -
Dr. Susan Kincannon	-
<b>Board Members:</b>	
Pat Atkins	-
Cary DuPuy	-
Robin Houston	-
Stephanie Ybarra-Korteweg	-
Norman Manning	-
Larry Perez	-
Allen Sykes	-
Angela Tekell	-
Jose Vidana	-

*Note -- An executive officer is defined as the superintendent, unless the board of trustees or the district administration names additional staff under this classification for local officials.*

**Exhibit A-5**

**Summary Schedule of the Total Dollar Amount by Board Member of Business Transactions with the School District**

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**For the Twelve-Month Period Ended August 31, 2019**

	<b>Total</b>
Superintendent:	
Dr. Marcus Nelson	\$ -
Dr. Susan Kincannon	-
Board Members:	
Pat Atkins	-
Cary DuPuy	405.53
Robin Houston	-
Stephanie Ybarra-Korteweg	-
Norman Manning	-
Larry Perez	-
Allen Sykes	-
Angela Tekell	-
Jose Vidana	-

*Note -- The summary amounts reported under this disclosure are not to duplicate the items disclosed in the summary schedule of reimbursements received by board members.*

**Accounting:** A standard school fiscal accounting system must be adopted and installed by the board of trustees of each school district. The accounting system must conform to generally accepted accounting principles. This accounting system must also meet at least the minimum requirements prescribed by the state board of education, subject to review and comment by the state auditor.

**Ad Valorem Property Tax:** Literally the term means “according to value.” Ad valorem taxes are based on a fixed proportion of the value of the property with respect to which the tax is assessed. They require an appraisal of the taxable subject matter’s worth. General property taxes are almost invariably of this type. Ad valorem property taxes are based on ownership of the property, and are payable regardless of whether the property is used or not and whether it generates income for the owner (although these factors may affect the assessed value).

**Adopted Tax Rate:** This is the tax rate set by the school district to meet its legally adopted budget for a specific calendar year.

**All Funds:** A school district’s accounting system is organized and operated on a fund basis where each fund is a separate fiscal entity in the school district much the same as various corporate subsidiaries are fiscally separate in private enterprise. All Funds refers to the combined total of all the funds listed below:

- The General Fund
- Special Revenue Funds (Federal Programs, Federally Funded Shared Services, State Programs, Shared State/Local Services, Local Programs)
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds for the National School Breakfast and Lunch Program (as appropriate)

**Assessed Valuation:** This is a valuation set upon real estate or other property by a government as a basis for levying taxes.

**Assigned Fund Balance:** The assigned fund balance represents tentative plans for the future use of financial resources. Assignments require executive management (per board policy to assign this responsibility to executive management prior to end of fiscal year) action to earmark fund balance for bona fide purposes that will be fulfilled within a reasonable period of time. The assignment and dollar amount for the assignment may be determined after the end of the fiscal year when final fund balance is known.

**Auditing:** Accounting documents and records must be audited annually by an independent auditor. The Texas Education Agency (TEA) is charged with review of the independent audit of the local education agencies.

**Beginning Fund Balance:** The General Fund balance on the first day of a new school year. This is, typically, equivalent to the fund balance at the end of the previous school year.

**Budget:** The projected financial data for the current school year. Budget data are collected for the general fund, food service fund, and debt service fund.

**Budgeting:** Not later than August 20<sup>th</sup> of each year, the superintendent (or designee) must prepare a budget for the school district if the fiscal year begins on September 1. (For those districts with fiscal years beginning July 1, this date would be June 20.) The legal requirements for funds to be budgeted are included in the Budgeting module of the TEA Resource Guide. The budget must be adopted before expenditures can be made, and this adoption must be prior to the setting of the tax rate for the budget year. The budget must be itemized in detail according to classification and purpose of expenditure, and must be prepared according to rules and regulations established by the State Board of Education. The adopted budget, as necessarily amended, shall be filed with TEA through the Public Education Information Management System (PEIMS) as of the date prescribed by TEA.

**Capital Outlay:** This term is used as both a Function and an Object. Expenditures for land, buildings, and equipment are covered under Object 6600. The amount spent on acquisitions, construction, or major renovation of school district facilities are reported under Function 81. Capitalization thresholds are generally established by district policy.

**Capital Projects Funds:** Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds.)

**Cash:** The term, as used in connection with cash flows reporting, includes not only currency on hand, but also demand deposits with banks or other financial institutions. Cash also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental enterprise may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

**Chapter 41:** A key “equity” chapter in the Texas Education Code (TEC) is Chapter 41. This chapter is devoted to wealth equalization through the mechanism of recapture, the recovery of financial resources from districts defined by the state as high property wealth. Resources are recovered for the purpose of sharing them with low-wealth districts. Districts that are subject to the provisions of Chapter 41 must make a choice among several options in order to reduce their property wealth and share financial resources.

**Committed Fund Balance:** The committed fund balance represents constraints made by the board of trustees for planned future use of financial resources through a resolution by the board, for various specified purposes including commitments of fund balance earned through campus activity fund activities. Commitments are to be made as to purpose prior to the end of the fiscal year. The dollar amount for the commitment may be determined after the end of the fiscal year when final fund balance is known.

**Comptroller Certified Property Value:** The district’s total taxable property value as certified by the Comptroller’s Property Tax Division (Comptroller Valuation).

**Days of Cash on Hand:** The number of days the school district can disburse funds for its operating expenditures without receiving any new revenues.

**Debt Service Fund:** Governmental fund type used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Debt Services:** Two function areas (70 and 71) and one object code series (6500) are identified using this terminology “debt services.” Function 70 is a major functional area that is used for expenditures that are used for the payment of debt principal and interest including Function 71. Expenditures that are for the retirement of recurring bond, capital lease principal, and other debt, related debt service fees, and for all debt interest fall under Function 71. Although these expenditures are budgeted and expended as function 71, financial statement presentation may break the expenditures into three functions to further differentiate expenditures: function 71, principal, function 72, interest, and function 73, related debt service fees. Object code series 6500 covers all expenditures for debt service.

**Debt Service Coverage Ratio:** This ratio measures an organization’s ability to make debt principal and interest payments that will become due during the year.

**Deferred Revenue:** Previously reported as liabilities, terminology for resource inflows that do not yet meet the criteria for revenue recognition. These deferred amounts include resources available but unearned, unearned revenue reported as a liability, and revenues earned but not available, reported in a separate section of the financial statements as deferred inflows of resources. This terminology is no longer used, see definitions under deferred outflow/inflow of resources and unearned revenue.

**Deferred Outflow/Inflow of Resources:** Items previously reported as assets and liabilities in the financial statements. A deferred outflow of resources is defined as “a consumption of net assets by the government that is applicable to a future reporting period,” and a deferred inflow of resources is defined as “an acquisition of net assets by the government that is applicable to a future reporting period.” Only those instances identified by the Governmental Accounting Standards Board (GASB) will be considered a deferred outflow or inflow of resources. Deferred outflows of resources are reported on the government-wide statement of financial position in a separate section directly following assets, and a deferred inflows of resources section should directly follow liabilities.

**Effective Tax Rate:** Provides the unit with approximately the same amount of revenue it had the year before on properties taxes in both years. A comparison of the effective tax rate to the taxing unit’s proposed tax rate shows if there will be a tax increase.

**Ending Fund Balance:** The ending fund balance is the amount of unencumbered surplus fund balance reported by the district at the end of the specified school year. For most school districts this will be equivalent to the fund balance at the beginning of the next school year.

**Excess (Deficiency):** Represents receivables due (excess) or owed (deficiency) at the end of the school year. This amount is recorded as Asset Object 1200.

**Existing Debt Allotment (EDA):** Is the amount of state funds to be allocated to the district for assistance with existing debt.

**Expenditures:** The cost of goods delivered or services rendered, whether paid or unpaid including expenses, provisions for debt retirement not reported as a liability of the fund from which retired and capital outlays.

**Federal Revenues:** Revenues paid either directly to the district or indirectly through a local or state government entity for Federally-subsidized programs including the School Breakfast Program, National School Lunch Program, and School Health and Related Services Program. This amount is recorded as Revenue Object 5900.

**Fiscal Year:** A period of twelve consecutive months legislatively selected as a basis for annual financial reporting, planning, and budgeting. The fiscal year may run September 1 through August 31 or July 1 through June 30.

**Foundation School Program (FSP) Status:** The Foundation School Program (FSP) is the shared financial arrangement between the state and the school district, where property taxes are blended with revenues from the state to cover the cost of basic and mandated programs. The nature of this arrangement falls in one of the following status categories: Regular, Special Statutory, State Administered, Education Service Center, or Open Enrollment Charter School District.

**FTE: Full-Time Equivalent** measures the extent to which one individual or student occupies a fulltime position or provides instruction, e.g., a person who works four hours a day or a student that attends a half of a day represents a .5 FTE.

**Function:** Function codes identify the expenditures of an operational area or a group of related activities. For example, in order to provide the appropriate atmosphere for learning, school districts transport students to school, teach students, feed students and provide health services. Each of these activities is a function. The major functional areas are:

- Instruction and Instructional-Related Services
- Instructional and School Leadership
- Support Services - Student
- Administrative Support Services
- Support Services - Non-Student Based
- Ancillary Services
- Debt Service
- Capital Outlay
- Intergovernmental Charges

**Fund Balance:** The difference between assets and liabilities reported in a governmental fund. The fund balance may be further delineated as required into the following components: Nonspendable, Restricted, Committed, or Assigned with the remaining balance identified as the Unassigned Fund Balance.

**General Administration:** The amount spent on managing or governing the school district as an overall entity. Expenditures associated with this functional area are reported under Function 41.

**General Fund:** This fund finances the fundamental operations of the district in partnership with the community. All revenues and expenditures not accounted for by other funds are

included. This is a budgeted fund and any fund balances are considered resources available for current operations.

**I&S Tax Rate:** The tax rate calculated to provide the revenues needed to cover Interest and Sinking (I&S) (also referred to as Debt Service). Debt Service includes the interest and principal on bonds and other debt secured by property tax revenues.

**Incremental Costs:** The amount spent by a school district with excess wealth per WADA on the purchase of attendance credits either from the state or from other school district(s). Expenditures associated with this functional area are reported under Function 92.

**Instruction:** The amount spent on direct classroom instruction and other activities that deliver, enhance, or direct the delivery of learning situations to students regardless of location or medium. Expenditures associated with this functional area are reported under Function 11.

**Instructional Facilities Allotment (IFA):** (State Aid) Provides assistance to school districts in making debt service payments on qualifying bonds and lease-purchase agreements. Proceeds must be used for the construction or renovation of an instructional facility.

**Intergovernmental Charges:** “Intergovernmental” is a classification used when one governmental unit transfers resources to another. In particular, when a Revenue Sharing District purchases WADA or where one school district pays another school district to educate transfer students. Expenditures associated with this functional area are reported under Function 90.

**Investments in Capital Assets, Net of Related Debt:** One of three components of Net Position that must be reported in both government-wide and proprietary fund financial statements. Related debt, for this purpose, includes the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, of improvement of capital assets of the government.

**Local & Intermediate Source Revenues:** All revenues from local taxes and other local and intermediate source revenues. For specifics, see the definitions for Local Property Tax and Other Local & Intermediate Source Revenues. This amount is recorded under Object 5700.

**Local Property Tax:** This is all revenues from local real and personal property taxes, including recaptured funds from 1) Contracted Instructional Services Between Public Schools (Function 91) and 2) Incremental Costs associated with Chapter 41 of the Texas Education Code (Function 92).

**M&O Tax Rate:** The tax rate calculated to provide the revenues needed to cover Maintenance & Operations (M&O). M&O includes such things as salaries, utilities, and day-to-day operations.

**Modified Opinion:** A term used in connection with financial auditing. A modification of the independent auditor’s report on the fair presentation of the financial statements indicating that there exist one or more specific exceptions to the auditor’s general assertion that the financial statements present fairly the financial information contained therein according to generally accepted accounting principles.

**Net Investment in Capital Assets:** One of three components of net position that must be reported in both government-wide and proprietary fund financial statements. The calculation includes capital assets net of accumulated depreciation less the outstanding balances of any bonds, mortgages, notes, or other borrowings attributable to the acquisition, construction, or improvement of capital assets. Once called “Invested in Capital Assets, Net of Related Debt” the designation now includes deferred outflows, such as deferred losses on refunding of debt, and deferred inflows attributable to capital assets and capital related debt in the calculation. Deferred gains/losses on refunding of debt is the difference between the reacquisition price and the net carrying amount of the old debt and is classified as a deferred inflow or outflow depending on whether it is a gain or loss on the refunding.

**Nonspendable Fund Balance:** The portion of fund balance that is in non-liquid form, including inventories, prepaid items, deferred expenditures, long-term receivables, and encumbrances (if significant). Nonspendable fund balance may also be in the form of an endowment fund balance that is required to remain intact.

**Object:** An object is the highest level of accounting classification used to identify either the transaction posted or the source to which the associated monies are related. Each object is assigned a code that identifies in which of the following eight major object groupings it belongs:

- 1000 Assets
- 2000 Liabilities
- 3000 Fund Balances
- 5000 Revenue
- 6000 Expenditures/Expenses
- 7000 Other Resources/Non-Operating Revenue/Residual Equity Transfers In
- 8000 Other Uses/Non-Operating Revenue/Residual Equity Transfers Out

**Operating Expenditures:** Operating expenditures are a wide variety of expenditures necessary to a district’s operations fall into this category with the largest portion going to payroll and related employee benefits and the purchase of goods and services.

**Operating Expenditures per Student:** Total Operating Expenditures divided by the total number of enrolled students. Student enrollment is typically reported as of fall PEIMS.

**Operating Revenues and Expenses:** Operating revenues and expenses are terms used in connection with the proprietary fund statement of revenues, expenses, and changes in net assets. The term is not defined as such in the authoritative accounting and financial reporting standards, although financial statement preparers are advised to consider the definition of operating activities for cash flows reporting in establishing their own definition.

**Other Local & Intermediate Source Revenues:** All local and intermediate revenues NOT from local real and personal property taxes including:

- Revenues realized as a result of services rendered to other school districts
- Tuition and Fees
- Rental payments, interest, investment income
- Sale of food and revenues from athletic and extra/co-curricular activities
- Revenues from counties, municipalities, utility districts, etc.

**Other Operating Costs:** Expenditures necessary for the operation of the school district that are not covered by Payroll Costs, Professional and Contracted Services, Supplies and Materials, Debt Services, and Capital Outlay fall into this category and include travel, insurance and bonding costs, election costs, depreciation, and other costs not defined elsewhere. This amount is recorded as Expenditure/Expense Object 6400.

**Other Resources:** This amount is credited to total actual other resources or non-operating revenues received, such as the sale of real or personal property, bond proceeds, etc., or residual equity transfers in. This amount is recorded under Object 7020.

**Payments for Shared Services Arrangements:** Payments made either from a member district to a fiscal agent or payments from a fiscal agent to a member district as part of a Shared Services Arrangement (SSA). The most common types of SSAs relate to special education services, adult education services, and activities funded by the Elementary and Secondary Education Act (ESEA). Expenditures associated with this functional area are reported under Function 93.

**Payroll:** Payroll costs include the gross salaries or wages and benefit costs for services or tasks performed by employees at the general direction of the school district. This amount is recorded as Expenditure/Expense Object 6100. *(NOTE: Payroll amounts do not include salaries for contract workers. Therefore, this figure will vary significantly between districts and campuses that use contract workers and those that do not.)*

**PEIMS:** A state-wide data management system for public education information in the State of Texas. One of the basic goals of PEIMS, as adopted by the State Board of Education in 1986, is to improve education practices of local school districts. PEIMS is a major improvement over previous information sources gathered from aggregated data available on paper reports. School districts submit their data via standardized computer files. These are defined in a yearly publication, the PEIMS Data Standards.

**Plant Maintenance & Operations:** The amount spent on the maintenance and operation of the physical plant and grounds and for warehousing and receiving services. Expenditures associated with this functional area are reported under Function 51.

**Property Value per Refined ADA:** The district's Comptroller Certified Property Value divided by its total Refined ADA (Average Daily Attendance).

**Property Value per WADA:** The district's Comptroller Certified Property Value divided by its total WADA (Weighted Average Daily Attendance).

**Refined ADA:** Refined Average Daily Attendance (also called RADA) is based on the number of days of instruction in the school year. The aggregate eligible days attendance is divided by the number of days of instruction to compute the refined average daily attendance.

**Restricted Fund Balance:** This is that portion of fund balance that has externally enforceable constraints made by outside parties. The restricted fund balance, shown on the balance sheet in the governmental fund statements, may not equal the restricted component of net position of governmental activities due to different measurement focus and/or different basis of accounting.

**Restricted Net Position:** The second of three components of net position of governmental activities reported as restricted when constraints placed on its use are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

The restricted component of net position should be reduced by liabilities and deferred inflows related to those assets. This component must be reported by the major categories of restrictions, e.g., restricted for capital projects, debt service, etc. No category of restricted net position can be negative, if liabilities related to restricted assets exceed those assets, no balance should be reported. The negative amount should be reported as a reduction of the unrestricted component of net position.

**Revenues:** Any increase in a school district's financial resources from property taxes, foundation fund entitlements, user charges, grants, and other sources. Revenues fall into the three broad sources of revenues: Local & Intermediate Source, State, and Federal.

**Rollback Tax Rate:** Provides governments other than school districts with approximately the same amount of tax revenue it spent the previous year for day-to-day operations plus an extra 8 percent cushion, and sufficient funds to pay its debts in the coming year. For school districts, the M&O portion of the rollback tax rate allows school districts to add four cents (\$0.04) to the lesser of the prior tax year compressed operating tax rate or the effective M&O rate to generate operating funds. School districts will get to add to the compressed operating rate any additional cents approved by voters at a 2006 or subsequent rollback election, not eight percent. The rollback rate is the highest rate that the taxing unit may adopt before voters can petition for an election to roll back the adopted rate to the rollback rate. For school districts, no petition is required; it's an automatic election if the adopted rate exceeds the rollback rate.

**Special Revenue Fund:** A governmental fund type used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes.

**State Revenues:** Revenues realized from the Texas Education Agency, other state agencies, shared services arrangements, or allocated on the basis of state laws relating to the Foundation School Program Act. This amount is recorded as Revenue Object 5800.

**Unassigned Fund Balance:** Available expendable financial resources in a governmental fund that are not the object of tentative management plans (i.e., committed or assigned). One primary criterion of rating agencies for school bonds is the relative amount of unassigned fund balance. Bond rating agencies view unassigned fund balances as a reflection of the financial strength of school districts and show concern when district fund balances decrease.

**Unearned Revenue:** Unearned revenues are resource inflows that do not yet meet the criteria for revenue recognition. Unearned amounts are always reported as unearned revenue. Generally accepted accounting principles require that contract and grant revenue be recognized when earned, which is typically based on when expenses are incurred. Grant fund awards made in advance of expenses are reported as unearned revenue at the close of

the fiscal period. In governmental funds, earned amounts also are reported as unearned revenue until they are available to liquidate liabilities of the current period.

**Unmodified Opinion:** Term used in connection with financial auditing. An unmodified independent auditor's opinion means there are no stated exceptions to the auditor's general assertion that the district's financial statements present fairly the financial information contained according to generally accepted accounting principles.

**Unrestricted Net Position:** The final of three components of net position of governmental activities, the term net position refers to the amount of total assets less total liabilities. Unrestricted net position balance refers to the portion of total net position that is neither included in the calculation of the net investment in capital assets nor restricted.

**WADA:** A Weighted Average Daily Attendance (WADA) is used to measure the extent students are participating in special programs. The concept of WADA in effect converts all of a school district's students with their different weights to a calculated number of regular students required to raise the same amount of revenue. The greater the number of students eligible for special entitlements, the greater a school district's WADA will be.

**Wealth Equalization Transfer:** The amount budgeted by districts for the cost of reducing their property wealth to the required equalized wealth level (Function 91). These funds are sometimes referred to as 'Robin Hood Funds'.

**DISCLAIMER ON GLOSSARY:**

*All of the information provided is believed to be accurate and reliable; however, TASBO and TSPRA assume no responsibility for any errors, appearing in this information or otherwise. Further, TASBO and TSPRA assume no responsibility for the use of the information provided.*