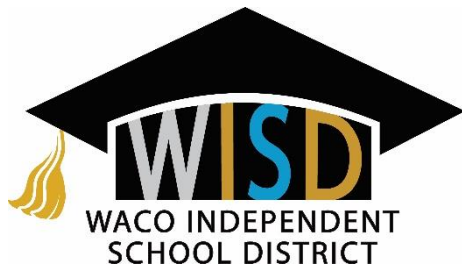




2017 Annual Financial Accountability Management Report

For the Fiscal Year Ended August 31, 2016





Annual Financial Accountability Management Report

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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 76th 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 83rd 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 2017 are based on fiscal year 2015-2016 financial data.

Indicator Category	Number of Indicators in Rating Year		
	2015	2016	2017
Critical	4	5	5
Solvency	1	7	7
Financial Competence	2	3	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". 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 31 points will receive a rating of “Substandard Achievement”. The following chart illustrates the scoring criterion for determination of ratings:

Rating	Points
A = Superior	70 through 100
B = Above Standard	50 through 69
C = Meets Standard	31 through 49
F = Substandard Achievement	0 through 30
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 2A, 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 8, 2017, 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 2015-2016 fiscal year. The District passed all the critical indicators and received a score of 98 out of a possible 100 points for the other indicators, losing two points on the District's administrative cost ratio.

Waco Independent School District's 2017 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 4 and September 11, 2017, and was run in their online advertising from September 4 through September 17. The public meeting is to be held on September 28, 2017.

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.

Beginning with the 2007 calendar year, 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;
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 \$100 or more;
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. a summary schedule of the data submitted using the electronic-based program developed under the financial solvency provisions of Texas Education Code, §39.0822; and
7. 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 2016 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

2016-2017 RATINGS BASED ON SCHOOL YEAR 2015-2016 DATA - DISTRICT STATUS DETAIL

Name: WACO ISD(161914)		Publication Level 1: 8/8/2017 2:29:29 PM	
Status: Passed		Publication Level 2: 8/8/2017 2:29:29 PM	
Rating: A = Superior		Last Updated: 8/8/2017 2:29:29 PM	
District Score: 98		Passing Score: 31	
#	Indicator Description	Updated	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>	3/28/2017 12:04:36 PM	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>	3/28/2017 12:04:36 PM	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>	3/28/2017 12:04:36 PM	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>	3/28/2017 12:04:36 PM	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>	3/28/2017 12:04:37 PM	Yes
5	<u>Was the total unrestricted net asset balance (Net of the accretion of interest for capital appreciation bonds) in the governmental activities column in the Statement of Net Assets greater than zero? (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.)</u>	3/28/2017 12:04:37 PM	Yes
			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 below.)</u>	3/28/2017 12:04:37 PM	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 below.)</u>	3/28/2017 12:04:38 PM	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 below.)</u>	3/28/2017 12:04:38 PM	10
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>	3/28/2017 12:04:38 PM	10
10	<u>Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges below.)</u>	5/18/2017 12:31:55 PM	10

11	<u>Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)</u>	3/28/2017 12:04:39 PM	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>	6/21/2017 8:26:16 PM	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>	3/28/2017 12:04:40 PM	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>	3/28/2017 12:04:40 PM	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>	3/28/2017 12:04:40 PM	10
			98 Weighted Sum
			1 Multiplier Sum
			98 Score

DETERMINATION OF RATING

A.	Did the district answer 'No' to Indicators 1, 3, 4, 5, or 2.A? If so, the school district's rating is F for Substandard Achievement regardless of points earned.	
B.	Determine the rating by the applicable number of points. (Indicators 6-15)	
	A = Superior	70-100
	B = Above Standard	50-69
	C = Meets Standard	31-49
	F = Substandard Achievement	<31

Home Page: [Financial Accountability](#) | Send comments or suggestions to FinancialAccountability@tea.texas.gov

THE **TEXAS EDUCATION AGENCY**

1701 NORTH CONGRESS AVENUE • AUSTIN, TEXAS, 78701 • (512)463-9734

How the Ratings Are Assessed

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, 2015 was approved by the Board of Trustees on January 26, 2017 and received by the Texas Education Agency on January 27, 2017. The Annual Financial Report for the fiscal year ended August 31, 2015 was approved by the Board of Trustees on January 21, 2016 and received by the Texas Education Agency by January 26, 2016.

- 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, 2016 and August 31, 2015 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, 2016 and August 31, 2015 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, 2016 or August 31, 2015.

- 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, 2016 and August 31, 2015.

- 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, 2016, Waco ISD had a total unrestricted net position of \$30,355,750 with accumulated accretion of interest for capital appreciation bonds of \$2,648,885. At August 31, 2015, the total unrestricted net position was \$30,160,328 with accumulated accretion of interest for capital appreciation bonds of \$5,693,948.

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)?

10	8	6	4	2	0
≥ 90	$< 90 \geq 75$	$< 74 \geq 60$	$< 60 \geq 45$	$< 45 \geq 30$	< 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, 2016, the District had cash on hand and current investments in the general fund to cover 141.396 days of operating expenditures. At August 31, 2015, the District had cash on hand and current investments in the general fund to cover 165.144 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?

10	8	6	4	2	0
≥ 3.00	$< 3.00 \geq 2.50$	$< 2.50 \geq 2.00$	$< 2.00 \geq 1.50$	$< 1.50 \geq 1.00$	< 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, 2016, the District had a current assets to current liabilities ratio of 3.6926. At August 31, 2015, the District had a current assets to current liabilities ratio of 3.5636.

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.)

10	8	6	4	2	0
≤ 0.60	$> 0.60 \leq 0.70$	$> 0.70 \leq 0.80$	$> 0.80 \leq 0.90$	$> 0.90 \leq 1.00$	> 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, 2016, the District has a ratio of long-term liabilities to total assets of 0.5652. At August 31, 2015, the District has a ratio of long-term liabilities to total assets of 0.695. which was on the low end of the classification and resulted in a loss of two 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, 2016, the District’s general fund revenues exceeded expenditures (excluding facilities acquisition and construction of \$42,806) by \$4,848,927 and had cash equivalents and current investments to cover 141.396 days of operating expenditures. For the fiscal year ended August 31, 2015, the District’s general fund revenues exceeded expenditures (excluding facilities acquisition and construction of \$1,424,640) by \$800,649 and had cash equivalents and current investments to cover 165.144 days of operating expenditures.

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

10	8	6	4	2	0
≥ 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, 2016, the District has a debt service coverage ratio of 1.5016. At August 31, 2015, the District’s debt service coverage ratio was 1.4877.

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	≤ 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	≤ 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	≤ 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	≤ 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	≤ 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	≤ 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 9.68 percent for the fiscal year ended August 31, 2016 compared to 9.84 percent for the prior year. The rate falls between 8.55 and 11.05 percent, garnering 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 2015-16 school year, the District had a student to staff ratio of 14.497:1 compared to 12.661:1 in 2012-13. This represents a 14.50% increase in the student to staff ratio over three years. Because enrollment increased over the three years, the District automatically passed the indicator.

For the 2014-15 school year, the District had a student to staff ratio of 10.1639:1 compared to 8.1727:1 in 2011-12, or a 24.36% increase over the three years. However, due to a reporting error only 5.6 auxiliary staff were reported through the Fall 2014 PEIMS submission. Auxiliary staff reported for 2013-14 was 485.5 and 571.7 were reported for 2015-16. It is estimated that this indicator should have reflected an 8.21% decrease rather than the 24.36% increase, still passing this indicator.

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 0.00000190 for the fiscal year ended August 31, 2016 compared to a variance of 0.00000122 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, 2016 and August 31, 2015 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 received an overpayment of state aid for the 2015-16 fiscal year in the amount of \$202,114 due primarily to losses in special education contact hours, the District was able to repay promptly without requesting an adjusted repayment schedule. The District did not require an adjusted repayment schedule for amounts owed at August 31, 2016 or August 31, 2015.

Exhibit A-1

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.

WACO INDEPENDENT SCHOOL DISTRICT

Superintendent's Contract

I. Term

IT IS HEREBY AGREED by and between the Board of Trustees (hereinafter called "Board") of the WACO INDEPENDENT SCHOOL DISTRICT (hereinafter called "District"), and DR. AL MARCUS NELSON (hereinafter called the "Superintendent"), that the Board in accordance with its action as found in the minutes of its meeting on April 27, 2017 does hereby employ Dr. Marcus Nelson as Superintendent of Schools from June 1, 2017 (hereinafter the "Effective Date") through June 1, 2022. Both parties agree that the Superintendent will perform the duties of Superintendent of Schools in and for the public schools of the District as prescribed by the laws of the State of Texas and by the policies, rules and regulations made thereunder by the Board of the District.

The Board and Superintendent may agree to extend or renew (whichever is appropriate), this Contract on an annual basis.

The Board has not adopted any policy, rule, regulation, law or practice providing for tenure. No right of tenure, contractual obligations, expectancy of continued employment, or claim of entitlement is created beyond the Contract term. Extension, renewal, non-renewal or termination of this Contract shall be in accordance with and pursuant to the terms and conditions of this Contract, Board Policy and applicable federal or state law.

II. Employment

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 Board Policies, the job description for Superintendent and as may be assigned by the Board, and shall comply with all Board directives, state and federal law, District policy, rules, and regulations as they exist or may

hereafter be amended. 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 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.

The Board, individually and collectively, will endeavor to refer all substantive criticisms, complaints and suggestions called to the Board's attention to the Superintendent for study and appropriate action, and the Superintendent or his designee shall investigate such matters and inform the Board of the results of such efforts.

The Superintendent, as directed by the Board, will furnish throughout the term of this Contract, a valid and appropriate certificate to act as Superintendent of Schools in the State of Texas. If the Superintendent's certification expires, is canceled, or is revoked, this Contract is void.

Except as otherwise permitted by this Contract or Board action, the Superintendent hereby agrees to devote his full time, energy, skill, labor and attention to said employment during the terms of this Contract.

The Board will have exclusive jurisdiction in determining policies for the direction and operation of the school system, and the Superintendent agrees to carry such policies into execution.

While the Board may assign additional duties to the Superintendent and change the Superintendent's responsibilities or work at any time during this Contract, the duties shall be appropriate and consistent with the professional role of the Superintendent and the Superintendent cannot be reassigned from the position of Superintendent to another position without the Superintendent's express written consent.

The Superintendent has disclosed to the Board his previous consulting relationships with vendors who have or may do business with the District. The Superintendent may serve as a consultant or undertake speaking engagements, or other professional duties and obligations (referred to collectively herein as "Consulting Services") that do not conflict or interfere with the Superintendent's professional responsibilities to the District. The Superintendent will not miss more than ten (10) District business days per contract year relating to Consulting Services. The Superintendent may accept a reimbursement of expenses but may not be paid an honorarium for such Consulting Services with vendors or potential vendors and such services will be of no cost to the District. Consultation provided by the Superintendent under the terms and conditions of this paragraph must be consistent with state and federal law, including Texas Education Code Section 11.201(e). The Superintendent shall keep the Board apprised of all outside speaking engagements.

The Superintendent shall attend all open meetings of the Board. The Superintendent shall also attend all closed meetings of the Board, unless the Board decides to exclude the Superintendent. If the Superintendent is ill or has obtained the approval of the Board President to be absent from a board meeting, the Superintendent's designee shall attend the meeting in place of the Superintendent.

III. Compensation

1. Salary.

Exhibit A-1

Superintendent's Current Employment Contract

The Superintendent, for performing faithfully the duties of Superintendent of Schools shall receive an annual salary of \$272,000.00. His annual salary will be paid in equal installments in accordance with the policy of the Board governing payment of other professional staff members in the District. It is agreed that the amount of the Superintendent's salary will not be reduced from the preceding year's salary.

2. *Other Benefits.*

The District shall provide benefits to the Superintendent as provided by state law and Board policies. The Board reserves the right to amend its policies at any time during the term of this Contract to reduce or increase these benefits, at the Board's sole discretion.

Additionally, the District will provide the following benefits:

(a) *Insurance.* The District shall pay on behalf of the Superintendent the same contribution as to other District employees for the health and medical insurance premium at the State Plan coverage option offered to the District's employees. The District shall pay at least the same premiums for hospitalization and major medical insurance coverage for the Superintendent pursuant to the group health care plan provided by the District for its administrative employees. The District shall pay the premiums for vision and dental insurance. The District will provide life insurance in the amount of \$500,000.00 (annual premium payment not to exceed \$1,500.00).

(b) *TRS Benefits.* The District will make the total member contribution on behalf of the Superintendent to the Texas Retirement System ("TRS"), including both the employer and the employee contributions. This salary supplement shall be paid to the Superintendent by regular payroll installments and shall be reported as compensation by the District to TRS. To the

extent that the District's payment of this TRS benefit as compensation to the Superintendent results in an increase of the TRS member contribution, the Superintendent shall be responsible to pay the difference.

(c) *Automobile Allowance.* The District shall provide the Superintendent with an automobile allowance in the sum of Five Hundred and No/100 Dollars (\$500.00) per month. This payment is in lieu of mileage expense reimbursement, gasoline, insurance, or other charges associated with such travel. The Superintendent is authorized to designate all or any part of this automobile allowance as salary.

(d) *Payment to a Tax-Deferred Annuity.* The District shall pay annually to the Superintendent, in addition to the Superintendent's salary identified in Section III(1) above, the amount of \$20,000.00 to a tax-deferred annuity identified by the Superintendent.

(e) *Out of Town Travel Expenses.* With exception of expenses associated with paragraph (c) above, and upon presentation of receipts and/or other documentation, the District shall reimburse the Superintendent for reasonable out of town travel expenses associated with his duties including, but not limited to, travel, lodging and meals. The Superintendent shall comply with all District Policies and procedures for documenting reimbursable expenses.

(f) *Vacations, Holidays, Sick Leave.* The Superintendent shall observe the same legal holidays and breaks as provided for other 12-month administrators in the Board's adopted annual calendar. The Superintendent shall also be entitled to an additional ten days of paid vacation to be used at his discretion. Unused vacation days (up to a maximum of 10) may be carried over

for future use. The Superintendent shall schedule vacation and leave days with prior written approval of the Board President and at times that will least interfere with the performance of the Superintendent's duties.

The Superintendent will be entitled to sick leave in accordance with state law and Board Policies as they presently exist or as they may be amended in the future in the same amount and under the same circumstances as other District professional personnel. Additionally, if the Superintendent should be unable to perform all or any of his duties by reason of illness, accident or other cause beyond his control, if said disability exists for a period longer than the accumulated sick leave to which he is entitled under Board policy, the Board may then in its discretion continue to pay the Superintendent for an additional period not longer than sixty (60) working days either at full or reduced salary, and if such disability continues beyond this additional period, or if said disability is permanent, irreparable or of such nature as to prevent proper performance of his duties, the Board may, at its option, terminate this Contract whereupon the respective duties, rights and obligations hereof will terminate.

The District shall pay the Superintendent a maximum of: (i) twenty accrued, unused state and local leave days and (ii) ten accrued, unused paid vacation days upon the Superintendent's resignation from employment, provided the Superintendent provides at least 60 days' written notice of resignation. The payout, if any, will be calculated using the Superintendent's daily rate of pay at the time of resignation, computed by dividing the Superintendent's annual salary by 230 days.

(g) *Membership Dues.* The Board encourages the Superintendent to become a member of and participate in professional associations and community and civic affairs, including the chamber of commerce, civic clubs, governmental committees, and educational organizations. The Board concludes that such participation will serve a legitimate purpose related to the educational mission of the District. The District will reimburse the Superintendent for the cost of membership in up to two professional associations and four local community or civic organizations. The District may reimburse the cost of membership in additional professional or civic organizations upon request by the Superintendent and subject to advance Board approval, in its discretion.

(h) *Internet Service.* The District shall pay or reimburse the Superintendent for the annual or monthly expenses incurred for providing the Superintendent with access to the Internet at the Superintendent's home, through a reputable Internet Service Provider.

(i) *Laptop Computer and cell phone.* The District shall provide wireless connectivity expenses and a laptop computer with necessary software for the Superintendent's use, at the sole cost and expense of the District. The Superintendent may, in the Superintendent's discretion, obtain a new replacement laptop computer every two years during the term of this Contract. The District will provide the Superintendent with a cell phone allowance in the amount of \$50.00 per month.

IV. Review of Performance

In January of each year, or as soon thereafter as practicable, but no later than February 15, the Board will devote a meeting or meetings to a mid-year review of the Superintendent's

performance (with the Superintendent present). In August of each year, the Board will devote a meeting or meetings to an evaluation of the Superintendent's performance (with the Superintendent present). The Superintendent's annual evaluation will be in accordance with State Law, rules of the Commissioner and Board Policies. At each such meeting(s), the Board, in consultation with the Superintendent, will establish specific goals or other objective criteria upon which, along with criteria set forth in Board Policies, the Superintendent will be evaluated for the following twelve (12) months. The evaluation of the Superintendent shall at all times be conducted in executive session and shall be considered confidential to the extent permitted by law. The Superintendent's evaluation shall be reduced to writing. The Board shall furnish the Superintendent with a copy of the written evaluation and shall discuss its contents with the Superintendent in executive session. Nothing herein shall prohibit the Board or the Superintendent from sharing the content of the Superintendent's evaluation with their respective legal counsel.

V. Professional Legal Liability

The Board agrees to indemnify and hold the Superintendent harmless from any and all claims, actions, causes of action or judgments brought against him or recovered against him by third parties including, but not limited to, court costs and attorney's fees incurred by the Superintendent or awarded against him, arising from the performance of his duties as Superintendent and this Contract to the fullest extent permitted by law and the policies of the Board. Provided, however, that the District's obligation to indemnify and hold harmless does not apply if it is determined that the Superintendent committed official misconduct, a willful or wrongful act or omission, and act or omission constituting gross negligence, or an act in bad faith or to criminal investigations or criminal proceedings.

The Superintendent shall fully cooperate with the District in the defense of any and all claims, demands, actions, causes of actions, suits and/or legal proceedings brought against the Board of Trustees, the District and/or employees of the District (in their official capacity), regardless of whether the Superintendent is named as a party. As long as the Superintendent fulfills his obligation of full cooperation, the District shall reimburse reasonable, necessary and related expenses incurred by the Superintendent in cooperating and defending. The provisions of this paragraph and the obligations of the parties under this paragraph shall survive and continue following any termination of this Contract.

The Board may provide a policy of liability insurance to protect the Superintendent in regard to matters covered under this section. In entering into this Contract, the Board and the Superintendent do not waive or modify any defense, immunity or jurisdictional bar available to the Board and the Superintendent. No policy of insurance providing coverage to the Superintendent is modified or changed by this Contract. If legal counsel is provided (to the District and/or the Superintendent) through any insurance coverage, the Superintendent agrees to such legal counsel, subject to the terms of the applicable insurance contract. If no legal counsel is provided through any insurance coverage, the District's legal counsel will also be counsel for the Superintendent for purposes of this section, unless a conflict precludes such dual representation. In that event, the selection of Superintendent's legal counsel shall be with the mutual agreement of Superintendent and the District if such legal counsel is not also District's legal counsel.

VI. Resignation, Suspension, Non-renewal and/or Termination of Employment

The Superintendent may leave the employment of the District at the end of a school year without penalty by filing a written resignation with the Board. The resignation must be addressed to the Board and filed not later than the 45th day before the first day of instruction of

the following year. The Superintendent may resign with the consent of the Board at any other time.

The Board may suspend the Superintendent with pay as determined to be in the best interest of the District.

The Board may suspend the Superintendent without pay, non-renew this Contract and/or terminate this Contract pursuant to Texas Education Code Chapter 21.

For purposes of suspension without pay and/or termination of this Contract, the term "good cause" means good cause as found by the Board and includes but is not limited to the following:

- (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. (The terms and conditions of this subparagraph (b) shall not justify good cause unless the Board has provided the Superintendent reasonable opportunity to remediate any incompetence 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) Failure to put forth a reasonable effort to achieve a good rapport with parents, the community, staff, or the Board; however, failure to accomplish a good rapport under the terms and conditions of this paragraph shall be deemed not to be good cause when said good rapport is not achieved due to no fault of the Superintendent;
- (n) Assault on an employee or student;
- (o) Knowingly falsifying records or documents related to the District's activities;
- (p) Conscious misrepresentation of facts to the Board or other District officials in the conduct of the District's business;
- (q) Failure to fulfill requirements for superintendent certification;
- (r) Failure to fulfill the requirements of a deficiency plan under an Emergency Permit; or,
- (s) Any other reason constituting "good cause" under Texas law.

VII. Miscellaneous

The Superintendent is encouraged to promote the District and the District's interests locally, and to participate in community and civic affairs and organizations. To this end, the District shall budget and provide the Superintendent with a Superintendent's Discretionary Fund of at least Twenty Thousand and No/1 00 Dollars (\$20,000.00). Any annual expenses for such activities in excess of this amount are subject to prior Board approval. Any portion of the Superintendent's Discretionary Fund which is not spent during any fiscal year shall be returned to the District's general fund. In the event sufficient funds are not appropriated to continue the Superintendent's Discretionary Fund in the above amount for any fiscal year, such lack of funding shall not be a breach of this Contract. The providing of this fund shall not be considered compensation to the Superintendent.

The Superintendent shall obtain three written quotes for expenses related to relocating the Superintendent's family and personal possessions to the District. The District shall pay the moving expenses in accordance to the best value as determined by the Superintendent. The Superintendent shall document all expenses with receipts, canceled checks, or credit card statements. In connection with Superintendent's relocation expenses incurred in connection with the prompt transition to the District, the District shall (1) reimburse in accordance with District policies and procedures the Superintendent for necessary and reasonable expenses incurred in the Superintendent's travel to and from the district, as well as related lodging and meals, incurred on or after April 27, 2017; and, (2) provide the Superintendent a maximum of sixty (60) days suitable lodging accommodations from the date of the Contract, in order to permit the Superintendent an opportunity to locate permanent lodging in the Waco area. The Superintendent shall document all expenses with receipts, cancelled checks or credit card statements, and the District shall reimburse the Superintendent for all such documented allowable expenses in accordance with District policies and procedures.

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. Upon the Effective Date, all existing agreements and contracts, both verbal and written, between the parties hereto regarding the employment of the Superintendent will be superseded by this Contract, and this Contract constitutes the entire agreement between the parties unless amended pursuant to the terms of this Contract.

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.

Exhibit A-1

Superintendent's Current Employment Contract

The Superintendent will fulfill all aspects of this Contract, any exception thereto being by written mutual consent of the Board and the Superintendent. Any extensions or amendments of this Contract will be in writing signed by both parties.

DATED this 30th day of April, 2017.

ATTEST:

WACO INDEPENDENT SCHOOL DISTRICT


Norman Manning, Secretary
Board of Trustees


Pat Atkins, President
Board of Trustees


Al Marcus Nelson,
Superintendent of Schools
Waco Independent School District

Exhibit A-2

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

For the Twelve-Month Period Ended August 31, 2016

Description of Reimbursements	Meals	Lodging	Transportation	Motor Fuel	Other	Total
Superintendent:						
Dr. Bonny Cain	\$ 141.88	\$ 2,656.94	\$ 7,456.26	\$ -	\$ 1,725.88	\$ 11,980.96
Board Members:						
Pat Atkins	112.00	2,084.15	292.30	-	325.00	2,813.45
Cary DuPuy	-	1,770.24	-	-	325.00	2,095.24
Stephanie Ybarra-Korteweg	112.00	1,834.91	117.65	-	756.88	2,821.44
Norman Manning	112.00	1,867.23	117.65	-	756.88	2,853.76
Larry Perez	222.00	2,262.61	324.34	-	756.88	3,565.83
Allen Sykes	112.00	1,792.28	117.65	-	756.88	2,778.81
Angela Tekell	-	1,842.31	235.91	-	325.00	2,403.22

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

For the Twelve-Month Period Ended August 31, 2016

Name(s) of Entity(ies)	Amount Received
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 \$100 in the Aggregate

For the Twelve-Month Period Ended August 31, 2016

	Total
Superintendent:	
Dr. Bonny Cain	\$ -
Board Members:	
Pat Atkins	-
Cary DuPuy	-
Stephanie Ybarra-Korteweg	-
Norman Manning	-
Larry Perez	-
Allen Sykes	-
Angela Tekell	-

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

For the Twelve-Month Period Ended August 31, 2016

	Total
Superintendent:	
Dr. Bonny Cain	\$ -
Board Members:	
Pat Atkins	68,835.88 *
Cary DuPuy	2,453.07
Stephanie Ybarra-Korteweg	-
Norman Manning	-
Larry Perez	-
Allen Sykes	74,024.04 *
Angela Tekell	-

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.

** Amounts shown are applicable to salaries and benefits for board member's spouse and/or children.*

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 20th 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 Project 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.

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.