

**DeSoto Independent School District
DeSoto, Texas**

**2018 Schools FIRST – Annual Financial
Management Report**

For the Year Ending June 30, 2017



**Dr. D'Andre Weaver, Superintendent of Schools
Deborah Cabrera, Interim Chief Financial Officer**

**DeSoto Independent School District
Annual FIRST Report for 2016-2017 Fiscal Year**

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Introduction

During the 77th regular session of the Texas Legislature (2001), Senate Bill 218 was passed and Governor Perry signed it into law shortly thereafter. This law requires each school district to prepare an annual financial accountability report, effective no later than September 1st each year. TEA issued the preliminary and final financial accountability ratings for the 2016-2017 fiscal year in August and October of 2018. The District's final rating of "Meets Standard" is included in this report.

Many business-related issues are covered in this report. The primary reporting tool, however, is the Financial Accountability Ratings Worksheet. This worksheet was developed by representatives of the Texas Education Agency (TEA), the Texas Business & Education Council (TBEC) and the Texas Association of School Business Officials (TASBO). It is administered by TEA and calculated using information submitted to the Agency via our PEIMS submission each year and other documentation procured by TEA. The accuracy of PEIMS data has always been critical on the student side of the submission, and this reporting requirement adds a high degree of importance to our financial submission each year.

The TEA has adopted additional refinements to the School FIRST process in response to comments received from stakeholders that took effect in 2010-11. The changes were implemented as an amendment of Title 19 Texas Administrative Code, Chapter 109, Budgeting, Accounting, and Auditing, Subchapter AA, Commissioner's Rules Concerning Financial Accountability Rating System. The adjustments included deletion of the indicator that refers to academic rating and optimum fund balance (effective 2012), fund balance and cash management indicators adjustments (effective 2013, 2014). The adjustments avoided penalizing districts that expended a portion of their fund balance as a result of current economic conditions. Reporting was again amended in 2015 to include only 7 criteria, and ratings of simply "Pass" or "Substandard". In 2016 the report was amended again to include 15 criteria, with an emphasis on financial management and long-term solvency. The ratings of A-F (Superior to Substandard Achievement) were reinstated as well.

The School FIRST report for 2018 remains the same as in the prior year.

The first five (5) indicators are scored yes or no. The next ten (10) criteria are each given a specific weight from 0-10 points. The first five (5) indicators are considered the Critical Indicators. These first five (5) criteria are of utmost importance since an automatic rating of Substandard Achievement is given if a "No" response is awarded to any of these critical indicators.

Currently, DeSoto ISD has dropped down to a rating of **"Meets Standard" or a C rating**, scoring 78 out of a possible 100 points and answering "Yes" to all critical indicators. Last year the rating was a B, or Above Standard. While the Board of Trustees and the District Administration work very hard to put systems and practices in place that allow DeSoto ISD to protect its financial integrity status recent events requiring the use of the district's reserves and actions not taken to preserve the Debt Service fund balance have caused the district to slip to a C rating. The worksheet itself and a discussion of each of its prominent points follow. Administration will have a long uphill battle to put measures in place to attempt to move the district back to "Superior Achievement".

Financial Integrity Rating System of Texas 2017-2018

2017-2018 RATINGS BASED ON SCHOOL YEAR 2016-2017 DATA - DISTRICT STATUS DETAIL

Name: DESOTO ISD(057906)	Publication Level 1: 8/6/2018 2:48:24 PM
Status: Passed	Publication Level 2: 8/8/2018 12:11:29 PM
Rating: C = Meets Standard	Last Updated: 8/8/2018 12:11:29 PM

District Score: 78

Passing Score: 60

#	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>	4/20/2018 8:25:20 AM	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>	4/20/2018 8:25:20 AM	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>	4/20/2018 8:25:20 AM	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>	4/20/2018 8:25:21 AM	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>	4/20/2018 8:25:21 AM	Yes
5	<u>Was the total unrestricted net position balance (Net of the 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 5 years was 7 percent or more, then the school district passes this indicator.)</u>	4/20/2018 8:25:21 AM	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>	4/20/2018 8:25:21 AM	4
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>	4/20/2018 8:25:22 AM	8
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 7 percent or more, then the school district passes this indicator.) (See ranges below.)</u>	4/20/2018 8:25:22 AM	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>	4/20/2018 8:25:22 AM	0
10	<u>Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges below.)</u>	4/20/2018 8:25:23 AM	8
11	<u>Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)</u>	4/20/2018 8:25:23 AM	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>	6/19/2018 11:07:30 AM	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>	4/20/2018 8:25:23 AM	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>	4/20/2018 8:25:24 AM	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>	4/20/2018 8:25:24 AM	10
			78 Weighted

		Sum
		1 Multiplier Sum
		78 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	90-100
	B = Above Standard	80-89
	C = Meets Standard	60-79
	F = Substandard Achievement	<60
<p>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.</p>		

Prior Year's Rating

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

Name: DESOTO ISD(057906)		Publication Level 1: 8/8/2017 6:20:16 PM	
Status: Passed		Publication Level 2: 8/8/2017 6:20:16 PM	
Rating: B = Above Standard		Last Updated: 8/8/2017 6:20:16 PM	
District Score: 82		Passing Score: 60	
#	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 3:13:06 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 3:13:06 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 3:13:06 PM	No
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 3:13:07 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 3:13:07 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</u>	3/28/2017 3:13:07 PM	Yes

	<u>school district's change of students in membership over 5 years was 10 percent or more, then the school district passes this indicator.)</u>		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 1:33:33 PM	2
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 1:21:46 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 1:33:33 PM	4
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>	5/18/2017 1:33:34 PM	10
10	<u>Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges below.)</u>	3/28/2017 1:33:34 PM	6
11	<u>Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)</u>	6/21/2017 3:13:10 PM	6
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>	3/28/2017 3:13:10 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 3:13:10 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 1:58:42 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 4:25:59 PM	10
			82 Score

Overview of the Worksheet

Critical Indicators

Criteria #1, #2.A, #3, #4, and #5 are the critical indicators. Any “NO” response in this category is a signal indicator of fiscal distress. These five criteria revolve around the audit report, fund net financial position, auditor’s findings, and on-time payments to Teacher Retirement System; Texas Workforce Commission; and Internal Revenue Service. If the audit is filed on time, there is an unmodified opinion on the Annual Financial Report, and all debt and governmental agencies payments are timely then the district passes these criteria. For the 2016-2017 fiscal year, DeSoto ISD had an Unrestricted Net Asset Balance of \$25,841,102 and passed all other critical indicator criteria.

Financial Stability

Criteria #6 through #10 examine the district’s financial position and stability. Criteria #6 determines whether the districts available cash resources are sufficient to cover operating expenditures when State Funding is not received. The district is placed in acceptable ranges based on the number of days of cash on hand. For the 2016-2017 fiscal year the district’s had 59.2 days of operating cash on hand and earned 4 points. This is an increase from the previous year of 15.4 days and 2 points. Anything greater than 90 days cash on hand is needed to reach the full 10 points. Criteria #7 concerns the measurement of short-term assets to current debt. It establishes ranges to determine the district’s ability to cover short-term debt. The district’s ratio for this indicator is 2.8 and scored 8 points out of a possible 10 points. This was a decrease of .57 points from the previous year. Criteria #8 uses total assets and long-term liabilities as a predictor of long-term solvency. This indicator also considers if a district is “fast-growth” as a mitigating factor. DeSoto’s five year change in student membership was 9.7% and is considered “fast-growth”. The percentage must be greater than 7% to pass the indicator with all 10 points. Last year the district received 2 points in this category because it was not considered fast growth and would have done so again this year if not for the fast growth exemption. This is an area in which the district may slip back to a low score in future years since they are not likely to maintain the fast growth status. Criteria #9 concerns budgets and expenditures. It examines if the district either spent more than it earned, or had more than 60 days cash on hand. In 2016-2017 the district decreased \$4,617,918 of its fund balance by spending more than it earned and only had 59 days of cash on hand so earned 0 points for this criteria. Criteria #10 looks at whether the district had sufficient earnings and fund balance in the debt service fund to cover debt service payments. The districts ratio of 1.17 was less than the 1.20 required for the maximum 10 points available so it only earned 8 points, last year all 10 points were earned. For this category the district earned 30 out of 50 points and overall, the district’s financial stability score decreased by 2 points from last year.

Administrative Ratio

Criteria #11 concerns the district's administrative cost ratio. This criteria will place the district within acceptable ranges based on the district's enrollment. For the 2016-2017 fiscal year the district's administrative cost ratio was 0.1178. In order to receive the full 10 points on this indicator the ratio should be 0.1000 or lower. The district's administrative cost ratio is not significantly higher than in the past; however, the state lowered the threshold for districts up to 10,000 students from 0.1250 to 0.1000 in 2015. Our ratio earned 8 points, up 2 points from last year.

Staffing

Criteria #12 is examining whether or not the district is appropriately adjusting staffing in the event of a decline in district enrollment. The criteria indicates that if student enrollment did not decline over the last three year the district will automatically pass this criteria. DeSoto ISD increased staff by 181 full-time equivalent positions from 2014-2015 to 2016-2017, while there was a 143 student enrollment increase. The full 10 points was awarded for this criteria.

PEIMS

Criteria #13 determines if there was a variance between what the district reported to PEIMS and the information on the Annual Financial Report. DeSoto had a 0.00% variance and received the full 10 points for this indicator.

Internal Controls

Criteria #14 examines the Annual Financial Report to determine if the districts Internal Controls were free from any material noncompliance with regard to grants, contracts, and laws related to local, state, or federal funds. DeSoto's AFR showed no material noncompliance and the full 10 points were awarded.

Budgeting and Financial Control

Criteria #15 concerns the district's budgeting and expenditure monitoring and control. If the district was overpaid Foundation School Program (FSP) funds by the state, did the district utilize those funds resulting in financial hardship and a subsequent request for an adjusted repayment schedule? The district has established controls to recognize overpayments and record appropriately to avoid over budgeting of unearned funds. The district received 10 points for this criteria.

Other Reporting Requirements

The following information is in response to reporting requirements added in 2006-2007 by the TEA. These items concern the superintendent's current employment contract, reimbursements received by the superintendent and board members, outside compensation received by the superintendent, and business transactions between the member of the board of trustees and the district. The legal basis for this information is found in Title 19 Texas Administration Code Chapter 109, Budgeting, Accounting, and Auditing Subchapter AA, Commissioner's Rules Concerning Financial Accountability Rating System, Section 109.1005. (Summary of all requirements attached)

Superintendent's Current Employment Contract

A copy of the superintendent's current employment contract at the time of the School FIRST hearing is to be provided. In lieu of publication in the annual School 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. The district has posted the current contract on its website.

Reimbursements Received by the Superintendent and Board Members

The following chart represents all "reimbursement" expenses, regardless of the manner of payments including direct pay, credit card, cash, advance, and purchase order. Items reported per category include:

- Meals – Meals consumed out of town, and in-district meals at area restaurants (outside of board meetings).
- Lodging – Hotel charges
- Transportation – Airfare, car rental (can include fuel on rental, taxis, mileage reimbursements, leased cards, parking and tolls)
- Motor Fuel – Gasoline
- Other – Registration fees, telephone/cell phone, internet service, fax service and other reimbursements to (or on-behalf of) superintendent and board member not defined above

Description of Reimbursement	Supt.	Place 1	Place 2	Place 3	Place 4	Place 5	Place 6	Place 7
	D. Harris	C. Sherman	V. Stripling / K.Goad	K. Daniel	J. Hall	A. Hooper	D. Gant	S. Monciffe
Meals	\$ 402.72	\$ 913.90	\$ 893.40	\$ 609.40	\$ 780.25	\$ 955.71	\$ 1,171.40	\$ 64.90
Lodging	\$ 6,192.88	\$ 1,341.12	\$ 2,184.73	\$ 1,327.37	\$ 965.48	\$ 2,167.72	\$ 4,115.25	
Transportation	\$ 819.09	\$ 1,963.48	\$ 1,722.83	\$ 2,476.95	\$ 1,945.96	\$ 2,609.62	\$ 2,266.96	\$ 38.13
Motor Fuel	\$ 112.53	\$ -	\$ -	\$ -	\$ 18.96	\$ -	\$ -	
Other	\$ 3,579.06	\$ 2,107.20	\$ 2,103.70	\$ 915.00	\$ 1,450.00	\$ 480.00	\$ 2,530.00	
Total	\$ 11,106.28	\$ 6,325.70	\$ 6,904.66	\$ 5,328.72	\$ 5,160.65	\$ 6,213.05	\$ 10,083.61	\$ 103.03

Outside Compensation and/or Fees Received by the Superintendent for Professional Consulting and/or Personal Services

No verifiable outside compensation was discovered for the twelve-month period ending June 30, 2017.

Business Transactions Between School District and Board Members

No verifiable business transactions occurred between the District and Board Members for the period ending June 30, 2017. Note: Any amounts reported under the disclosure are not to duplicate the items disclosed in the summary schedule of reimbursements received by board members.

Other Data Concerning the District's Operations

The purpose of this section of the report is to discuss other aspects of our business operations not covered by the worksheet, but suggested by law as items of significance meriting discussion. We should view the worksheet as a good basic tool with which to assess our primary business practices. However, we should not stop there! We should always be working towards improvement in all aspects of our operation to maximize funds available to campuses for educational purposes and to our ancillary departments that support our campuses. In the following section we will briefly review a number of areas that relate to our current business practices not covered by the Financial Accountability Worksheet directly.

Financial Strength

The state of Texas recommends that we discuss the financial strength of the district in this report; however, they give no indication as to what criteria should be considered in that discussion. There are many measures of financial strength, other than the fund balance, and it is difficult to determine which will provide the best measure of overall financial strength and position. For the purposes of this report we will be considering the District's ability to meet its cash flow needs from September to December each year without borrowing money as the most significant financial strength indicator. In the past 16 years, DeSoto ISD has not had to borrow funds for operating purposes prior to the tax collection season, which tells us that we have had adequate financial strength and liquidity up until the present time. Unfortunately, the district has had to issue \$6,000,000 in Tax Anticipation Notes in the 2018-2019 fiscal year and it should be noted that the current fund balance for fiscal year 2017-2018 is at 14% or 1.7 months and TEA's acceptable levels is from 16.7% to 25% or 2 to 3 months of operating budget. At the time of this report the district believes that we will see a further decrease in the fund balance for the 2018-2019 fiscal year even though the Board of Trustees had adopted a budget that would have added to the fund balance. To rebuild the district's cash position and fund balance we must be vigilant in our savings and continue to look for more effective and efficient ways to operate our schools. The goal now is to begin rebuilding DeSoto ISD's fund balance to the optimum level.

Operating Cost Management

As has been discussed on numerous occasions, only a small portion of our total General Fund expenditures are flexible or variable in nature (less than 5%). Salaries and benefits comprise the biggest expenditure each year (over 80%), and while utilities fluctuate in any given year, they still make up a large single

expenditure (more than 4%). After removing these two items from the equation, there is only a small portion of the budget that retains some semblance of control. Supplies, materials, travel and a few contracted services comprise this relatively small remaining balance. These costs are considered to be controllable operating costs. The chart below demonstrates how our total operating costs per student have changed over time, and now exceeds the state average due to the additional funds primarily from new federal grant awards. The increase in 2016-17 of \$790 is due to an increase in Child Nutrition (\$123 per student) and an increase in instruction and community services for the 21st Century grant and the A2E2 grants (\$418 and \$219 per student) with only slight changes in other functions.

Operating Costs Comparison All Funds					
<u>Year</u>	<u>Operating Costs per student</u>	<u>\$ Change from prv yr</u>	<u>%Change from prv yr</u>	<u>State Totals</u>	<u>Variance</u>
2009-10	\$8,152	\$179	2.25%	\$8,802	(\$650)
2010-11	\$8,199	\$47	0.58%	\$8,717	(\$518)
2011-12	\$8,052	(\$147)	(1.79%)	\$8,276	(\$224)
2012-13	\$7,812	(\$240)	(2.98%)	\$8,327	(\$515)
2013-14	\$7,922	\$110	1.41%	\$8,692	(\$770)
2014-15	\$8,926	\$1,004	12.67%	\$9,065	(\$139)
2015-16	\$9,528	\$602	6.74%	\$9,373	\$155
2016-17	\$10,318	\$790	8.3%	\$9,503	\$130

Another measure the state of Texas uses to evaluate operating cost efficiency is the administrative cost ratio. Texas has a legal cap on administrative costs and a formula for calculating the percentage that is mandated by law. Simply, it takes the operating expenditures in general administration (Function 41) and instructional leadership (21) and divides this number by the expenditures in instruction (11), instructional resources/media (12), curriculum and staff development (13), and guidance and counseling (31). Based on DeSoto's size, our administrative cost ratio limit is 10.0%. The criteria threshold of 12.5% was reduced for the 2013-2014 fiscal year and going forward to 10%.

Administrative Cost Comparison – General Fund				
<u>Year</u>	<u>State Limit</u>	<u>District Actual</u>	<u>\$ Under Limit</u>	<u>State Avg.</u>
2008-09	12.5%	8.87%	\$1,597,945	8.12%
2009-10	12.5%	8.70%	\$1,673,491	8.17%
2010-11	12.5%	8.88%	\$1,590,418	8.01%
2011-12	12.5%	9.18%	\$1,350,255	8.04%
2012-13	12.5%	9.86%	\$957,041	8.18%
2013-14	10.0%	11.72%	(\$643,948)	8.76%
2014-15	10.0%	12.41%	(\$1,096,928)	9.08%
2015-16	10.0%	13.77%	(\$1,851,289)	9.23%
2016-17	10.0%	11.78%	(\$1,122,784)	7.5 %

When compared with state averages we can still see that there is still room for improvement. The District is making a conscious and concerted effort to contain, or reduce, administrative costs while funneling every possible dollar to the campuses to serve the needs of the students first, while still providing the support, training, and innovative programs to campus personnel.

Personnel Management

The job of attracting and retaining a quality teaching staff is second only to our students' welfare and education at DeSoto ISD. The Talent Management Department of DeSoto ISD is constantly aware of the need to maintain a competitive salary so that we may attract and retain quality professionals to the district. This job is made particularly challenging given our proximity to the Dallas-Fort Worth Metroplex. All areas of our compensation structure, from teachers to administrators to support personnel, are market-based and are geared to enable the district to be competitive in all areas of hiring. The District has a quality benefits program that compares very favorably with surrounding districts from a benefits coverage and employee contribution standpoint. The district has utilized additional funds from a successful TRE election to bring the district up to a competitive level with the market and administration will continue to monitor the market and make appropriate adjustments to maintain a competitive salary structure. District onboarding and mentoring programs are proving valuable tools in retaining quality teachers, as well.

Debt Issuance and Debt Management

Even with home values increasing over the last three years, debt management is still a difficult process to stay on top of. While the District's debt burden as a percentage of taxable debt has increased over the last several years with the sale of bonds, the district has managed to control the increase of debt payments by refunding of higher interest rate bonds and receiving below average interest rates on new sales. The District's financial advisor has played a key role in this prudent debt management process over this period of time.

On June 30, 2017, \$134,434,614 of general obligation bond principal remains outstanding.

Cash Management

DeSoto has a very active investment and cash management program.

First, we have a state and local board policy that requires us to invest funds with six objectives in mind. In order of importance, those six objectives are: safety, liquidity, diversity, suitability, marketability, and yield. State and local policy specify what types of securities the District can purchase within the parameters set forth in these objectives. The finance department does not purchase any securities which do not fall within our interpretation of these policy restrictions. We strive to maintain diversity in our portfolio, balancing cash in the bank with money invested in two different investment pools. To enhance the portfolio's diversity we also purchase Certificates of Deposit when there is a favorable short-term or long-term yield.

Additionally, we will benchmark our portfolio's yield to the Federal Funds rate and the 90-day Treasury Bill rate. These comparisons are used only to determine if the District's portfolio is yielding comparable market rates of return.

Lastly, the Board of Trustees receives a quarterly investment activity and performance report, as required by law.

Budgetary Planning and Financial Allocations

The finance department strives to begin the budget process in October or early November each year. During the first month of planning, budget allocations are developed for each campus and department; the budget documents are updated and distributed to all budget managers. Most school districts have some rational basis for allocating funds to campuses and departments. In DeSoto ISD we have historically allocated funds to campuses based on their number of students in attendance. Support departments get funds based on previous year's budgets (up or down) for future needs. In January, we will begin attempting to calculate state and local revenues and the budget starts to take a recognizable form. March is the month when we can give the Board and the public a preliminary glimpse into how next year's budget will look. Of course it has to be taken into consideration that on odd-numbered years the legislature is in session and that typically complicates and delays the budgeting process. May and June are spent fine-tuning the budget and finalizing revenue estimates in time for June adoption by the Board of Trustees.

The District makes every effort to make the budget process proactive and highly participatory. Campuses and departments are given a great deal of discretion as to how to budget their funds. After the final budget is adopted, each campus or department is given equal latitude regarding amending their budget when plans or needs change. This decentralized style of budget management is required by the state of Texas to a certain degree. It is an integral part of site-based decision making. Most importantly, it is a system of empowerment that works best in the long-run by allocating resources where they are needed, by the people who use them, even when those needs change.

Other Issues

DeSoto ISD finance department is always looking for new and innovative ways to improve our overall business management practices. On occasion we codify new ideas into formal Board goals. More often, however, we make changes to our practices based on what we learn from our school business peers, who struggle with the same issues on a day-to-day basis. We continue our learning process at seminars, clinics, and workshops. The Texas Association of School Business Officials (TASBO) provides many of our best learning opportunities. Our external auditors also provide us with an annual check-up on our practices and procedures, suggesting improvements during the course of their audit procedure, and formal suggestions in the form of a management letter.

For a number of years now, Texas has been a leader in data management, collection and quality of comparability. Texas' Public Education Information Management System (PEIMS) is far ahead of other state's data collection and comparability modules for financial, student, staffing, attendance, and academic achievement data. The quality of the financial data collected in PEIMS has taken on a new significance now that it is incorporated into one of the FIRST criteria, covered earlier in the report. Financial data submitted via the PEIMS system must closely match that in the audit report in order to satisfy the requirement in criterion #6. We will continue to closely monitor all of the District's data submissions in recognition of the importance of this state requirement.

Annual Financial Management Report

(Summary of Requirements)

The annual financial management report prepared by the school district must include:

(1) a description of the district's financial management performance based on a comparison, provided by the Texas Education Agency (TEA), of the district's performance on the indicators established by the commissioner of education and reflected in §109.1002 of this title (relating to Financial Accountability Ratings/2009 Report will report 2007-08 FIRST Rating). The report will contain information that discloses:

(A) state-established standards; and

(B) the district's financial management performance under each indicator for the current and previous years' financial accountability ratings;

(2) any descriptive information required by the commissioner of education, including:

(A) a copy of the superintendent's current employment contract. The school district may publish the superintendent's employment contract on the school district's Internet site in lieu of publication in the annual financial management report;

(B) a summary schedule for the fiscal year (12-month period) of 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. The summary schedule shall separately report reimbursements for meals, lodging, transportation, motor fuel, and other items (the summary schedule of total reimbursements is not to include reimbursements for supplies and materials that were purchased for the operation of the school district);

(C) 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. The schedule shall separately report the amount received from each entity;

(D) a summary schedule for the fiscal year of the total dollar amount by the executive officers and board members of gifts that had an economic value of \$250 or more in the aggregate in the fiscal year. This reporting requirement only applies to gifts received by the school district's executive officers and board members (and their immediate family as described by Government Code, Chapter 573, Subchapter B, as a person related to another person within the first degree by consanguinity or affinity) from an outside entity that received payments from the school district in the prior fiscal year, and gifts from competing vendors that were not awarded contracts in the prior fiscal year. This reporting requirement does not apply to reimbursement of travel-related expenses by an outside entity when the purpose of the travel is to investigate or explore matters directly related to the duties of an executive officer or board member, or matters related to attendance at education-related

conferences and seminars whose primary purpose is to provide continuing education (this exclusion does not apply to trips for entertainment-related purposes or pleasure trips). This reporting requirement excludes an individual gift or a series of gifts from a single outside entity that had an aggregate economic value of less than \$250 per executive officer or board member; and

(E) 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. This reporting requirement is not to duplicate the items disclosed in the summary schedule of reimbursements received by board members; and

(3) any other information the board of trustees of the district determines to be useful.

(4) The board of trustees of each school district shall hold a public hearing on the report.

(A)The board shall give notice of the hearing to owners of real property in the district and to parents of district students. In addition to other notice required by law, notice of the hearing must be provided:

- (1) to a newspaper of general circulation in the district; and
- (2) through electronic mail to media serving the district.

(5) After the hearing, the report shall be disseminated in the district in the manner prescribed by the commissioner.

Glossary

Academic Excellence Indicators System (AEIS): A system of indicators established by the Legislature and adopted by the State Board of Education to help determine the quality of learning on a campus and in a school district. The indicators include passing rates on the state assessment test, attendance, graduation rates, dropout rates, and scores on college entrance exams. The state will assess district and school performance compared with state-level standards. AEIS is the foundation for a school district's accountability rating.

Accountability Rating: Rates campuses and districts as exemplary, recognized, acceptable, and low performing based on the percentage of students who pass the state assessment instruments and the dropout/completion rate.

Accrual Basis of Accounting: A method of accounting that recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows.

Allotment: Portion of an annual budget appropriation allocated to an interim period.

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

Average Daily Attendance (ADA): A method of counting student for the purpose of providing state aid to school districts. Currently, Texas counts students in attendance each day and averages the attendance count over the year.

Basic Allotment: The initial or starting number that, after adjustment, is used to calculate foundation program costs and state aid to school districts.

Board of Education: The elected or appointed body which has been created according to State law and vested with responsibilities for educational activities in a given geographical area. These bodies are sometimes called school boards, governing boards, boards of directors, school committees, school trustees, etc.

Bond: A written promise, generally under seal, to pay a specified sum of money, called the face value, at a fixed time in the future, called the date of maturity, and carrying interest at a fixed rate, usually payable periodically.

Bonds Authorized and Unissued: Bonds which have been legally authorized but not issued and which can be issued and sold without further authorization.

Budgetary Basis of Accounting: The method used to determine when revenues and expenditures are recognized for budgetary purposes.

Budgetary Reporting: The requirement to present budget-to-actual comparisons in connection with general purpose external financial reporting. Budgetary reporting is required in connection with the basic financial statements for both the general fund and individual major special revenue funds with legally adopted annual budgets.

Capital Assets: Land, improvements, easements, buildings, building improvements, vehicles, and equipment and furniture having a unit cost of \$5,000 or more with a useful life of more than one year.

Cocurricular Activities: Direct and personal services for public school pupils, such as interscholastic athletics, entertainments, publications, clubs, band, and orchestra, that are managed or operated by the student body under the guidance and direction of an adult, and are not part of the regular instructional program.

Compensatory Education: The State Compensatory Education Allotment provides additional financial support to school district to teach educationally disadvantaged pupils and underachieving students. A program of compensatory education should provide additional services and instructional support, beyond the regular program, to help students compensate for academic deficiencies and may include programs for at-risk student. The allotment is based upon the number of student participating in the federal free or reduced-price lunch program.

Completion Rate: A longitudinal measure that shows the status of students expected to graduate, starting with their first attendance in ninth grade.

Comprehensive Annual Financial Report (CAFR): A financial report that encompasses all funds and component units of the government. The CAFR is the governmental unit's official annual report and also should contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data.

Contracted Services: Labor, material, and other costs for services rendered by personnel who are not on the payroll of the local education agency.

Cost of Education Index (CEI) or Adjustment: An index the state uses to adjust the basic allotment to account for geographic or other cost differences beyond local school district control. The current index has not been updated since 1990.

County Appraisal District: Each county has established an appraisal district office that is responsible for maintaining taxable real and personal property records and placing a value on all property for taxation purposes.

Debt Service: (See "Interest and Sinking Fund")

Disciplinary Alternative Education Program (DAEP): The law requires school districts to set up an educational setting for students who engage in certain illegal conduct or for students who violate certain provisions of the school district's code of conduct. The DAEP must provide for students' educational and behavioral needs. Districts must allocate to DAEP the same expenditure per student that would be allocated if the student were attending the regularly assigned program, including special education programs.

District-Level Decision-Making Process: The school board annually approves district and campus performance objectives and assures that district and campus plans are mutually supportive and, at minimum, meet the state's educational goals. Each district has a district improvement plan that is developed, evaluated, and revised each year by the superintendent, with the assistance of the district-level decision-making committee.

Dropout: A student who is absent without an approved excuse or document transfer and does not return to school by the fall of the following year, or if he or she completes the school year but fails to reenroll the following school year. School districts report the status of all students enrolled in grades 7 through 12 in the district during the prior school year in one of two ways: as being in school or as having left school. The "leaver record" provides 13 possible reasons for leaving school.

Dropout Rate: The count of official dropouts summed across all grades (7 through 12) divided by the number of students summed across all grades (7 through 12). The annual dropout rate is different than the longitudinal rate, which compares the number of students who began school together in the seventh grade and who eventually graduate.

Education Service Center (ESC): In 1967, twenty (20) state service centers were established by the Texas Legislature to provide districts with professional development training and technical assistance that support statewide goals for school improvement.

Estimated Revenue: When the accounts are kept on an accrual basis, this term designates the amount of revenue estimated to accrue during a given period regardless of whether or not it is all to be collected during the period.

Expenditures: This includes total charges incurred, whether paid or unpaid, for current expense, capital outlay, and debt service.

Existing Debt Allotment (EDA) Program: In 1999, the Legislature added Subchapter B to Chapter 46 of the Texas Education Code (TEC) to create the EDA program. The EDA provides tax rate equalization for local debt service taxes, operates without applications, and has no award cycles. Each school district is guaranteed a specified amount per student in state and local funds for each cent of tax effort to pay the principal and interest on eligible bonds. Only

General Obligation Bonds are eligible for the program. The current existing debt tax rate may not exceed \$0.29 per \$100 valuation.

Fiscal Year: A twelve month period of time to which the annual budget applies and at the end of which a local education agency determines its financial position and the results of its operations.

Function: As applied to expenditures, this term has reference to an activity or service aimed at accomplishing a certain purpose or end; for example, Instruction, Instructional Administration, Plant Maintenance and Operations.

Fund: A sum of money or other resources set-aside for specific activities of a school district. The fund accounts constitute a complete entity and all of the financial transactions for the particular fund are recorded in them.

Fund Balance: The excess of assets of a fund over its liabilities and reserves. During the fiscal year prior to closing, it represents the excess of the fund's assets and estimated revenues for the period over its liabilities, reserves, and appropriations for the period.

General Fund: A fund used to finance the ordinary operations of the local education agency. It is available for a legally authorized purpose and consists of money not specifically designated for some other particular purpose.

General Obligation Bonds: Bonds backed by the full faith and credit of the government.

Independent School District (ISD): The Texas Constitution permits the state Legislature to create school districts. Each district operates its schools and taxes property within the district to support, in part, the schools. The term independent refers to the fact that the school district is not a part of city or county government and has independent budgeting and taxing authority. ISD's are governed by locally elected boards of trustees.

Individuals with Disabilities Act (IDEA): This act : (1) ensures that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs; (2) ensures that the rights of children with disabilities and their parents or guardians are protected; (3) assists States, localities, educational service agencies and Federal agencies to provide for the education of all children with disabilities; and (4) assesses and ensures the effectiveness of efforts to educate children with disabilities.

Instructional Facilities Allotment (IFA): Since 1997, the IFA has provided funds to school districts to help pay debt service. The mechanism for computing the state and local share of the IFA payment is guaranteed-yield formula. Low-wealth school districts and school districts not already participating in the IFA program have priority in receiving IFA funding for construction or lease purchase of new instructional facilities.

Interest and Sinking Fund (I&S): Also called the debt service tax. A tax levied by school districts to pay for bonded indebtedness, usually for construction of facilities, and other capital needs.

Juvenile Justice Alternative Education Program (JJAEP): In counties with populations greater than 125,000, the juvenile board must develop a JJAEP approved by the Texas Juvenile Probation Commission. In these larger counties, students who engage in conduct requiring expulsion under Chapter 37 of the Texas Education Code must be placed in a JJAEP.

Maintenance and Operations (M&O) Tax: A local school district property tax rate that raises revenues to be used for any legal purpose to operate and maintain the district's schools.

Meritorious Budget Award (MBA): Designed by the Association of School Business Officials International and school business management professionals to enable school business administrators to achieve a standard of excellence in budget presentation. The program helps school systems build a solid foundation in the skills of developing, analyzing, and presenting the budget. The Meritorious Budget Award is only conferred to school systems that have met or exceeded the Meritorious Budget Award Program criteria.

Modified Accrual Basis of Accounting: Basis of accounting according to which (a) revenues are recognized in the accounting period in which they become available and measurable and (b) expenditures are recognized in the

accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligations, which should be recognized when due.

Object: A term used in connection with the classification of expenditures. The article purchased or the service obtained, rather than the purpose for which the article or service was purchased or obtained.

Public Education Information Management System (PEIMS): A data management system that includes information on student demographics, performance, school district budgets, teacher salaries, etc. The information for PEIMS is transmitted from local school district to the Texas Education Agency by the education service centers.

Public Information Act (PIA): defines public information as information collected, assembled, or maintained under law or in connection with a governmental body's transaction of official business. PIA provides that public information must be made available to the public upon request during the normal business hours of the district, unless an exception applies that allows or requires that the information not be made public.

Rollback: A taxpayer relief mechanism that allows local voters to contravene the school board's M&O tax rate if it exceeds a certain level. If the school board adopts an M&O tax rate that exceeds the rollback rate, the district must call an election so voters can determine whether to ratify the adopted tax rate. The rollback rate is equal to the tax rate that would provide the same local taxes and state aid per weighted average daily attendance (WADA) as was available the previous year plus \$0.04.

Target Revenue: The amount of revenue a district is determined to need by the Texas Education Agency to operate on a basis of equity with other like districts. The target revenue is comprised of state funding and local tax revenues (without regard to how it is achieved) to reach the target level.

Teacher Retirement System (TRS): TRS delivers retirement and related benefits authorized by law for members and their beneficiaries.

Technology Allotment: This allotment is part of the state textbook fund and can be used to purchase electronic textbooks or technological equipment that contributes to student learning or teacher training. The 2007-08 allotment is \$30.00 per ADA.

Texas Assessment of Knowledge and Skills (TAKS): TAKS replaced the Texas Assessment or Academic Skills (TAAS), a criterion referenced test used in Texas school for 12 years. TAKS began in spring 2003, with tests in reading in grades 3 through 9; language arts in grades 10 and 11; writing in grades 4 and 7; science in grades 5,10, and 11; social studies in grades 8,10 and 11; and mathematics in grades 3 through 11. The 11th grade exit level test assesses English III, Algebra I, Geometry, Biology, Integrated Chemistry and Physics, Early American and U.S. History, World Geography, and World History.

Texas Education Agency (TEA): The administrative and regulatory unit for the Texas public education system managed by the commissioner of education. TEA is responsible for implementing public education policies as established by the Legislature, State Board of Education, and commissioner of education.

Wealth: In school finance, the wealth of a district is measured in taxable value or property per Weighted Average Daily Attendance (WADA).

Weighted Average Daily Attendance: In Texas, students with special educational needs are weighted for funding purposes to help recognize the additional costs of educating those students. Weighted programs include special education, career and technology, bilingual, gifted and talented, and compensatory education. A weighted student count is used to distribute funding and establish Chapter 41 thresholds.

Source: Texas Association of School Boards, A Reporter's Guide to Texas Public Education