

2016-17 Annual Financial Management Report

For the Fiscal Year Ended June 30, 2017





Spring Independent School District

16717 Ella Blvd.
Houston, TX 77090

Annual Financial Management Report

Issued by:

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ANNUAL FINANCIAL MANAGEMENT REPORT

Spring Independent School District For the Fiscal Year Ended June 30, 2017

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INTRODUCTION

The Financial Accountability Rating System of Texas (School FIRST) was developed by the Texas Education Agency (TEA) in response to Senate Bill 875 of the 76th Texas Legislature in 1999. It is administered by TEA and calculated on information submitted to TEA via Public Education Information Management System (PEIMS) submission each year.

During the 77th regular session of the Texas Legislature in 2001, Senate Bill 218 was passed and signed into law by Governor Perry shortly thereafter. This law requires each school district to prepare an annual financial accountability report, within two months of receiving the official ratings. This is the 14th year of School FIRST.

Major changes to the School FIRST system were implemented by the Texas Education Agency in August 2015 that combined financial indicators with financial solvency indicators, in accordance with Section 49 of House Bill 5, enacted by the 83rd Texas Legislature, Regular Session, 2013. The primary goal of School FIRST is to achieve quality performance in the management of school districts' financial resources, a goal made more significant due to the complexity of accounting associated with Texas' school finance system.

This rating system ensures that Texas public schools are held accountable for the quality of their financial management practices and that they improve those practices. The system is designed to encourage Texas public schools to better manage their financial resources to provide the maximum allocation possible for direct instructional purposes.

The School FIRST accountability rating system assigns one of four financial accountability ratings to Texas school districts, with the highest being "Superior," followed by "Above-Standard," "Standard" and "Substandard."

Spring Independent School District achieved a rating of "A" for "Superior" under Texas' School FIRST financial accountability rating system for the 2016-2017 fiscal year. The "Superior" rating is the state's highest, demonstrating the quality of Spring ISD's financial management and reporting system. This report briefly focuses on the details of what the District has accomplished to obtain this rating.

In addition to covering the results from the School FIRST accountability rating system, this report includes other business-related issues such as a discussion of the District's financial position.

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2017-2018 RATINGS BASED ON SCHOOL YEAR 2016-2017 DATA

Spring Independent School District

Status: PASSED | Rating: A = SUPERIOR | District Score: 94

#	Indicator Description	Score
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?	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	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.)	Yes
2.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.)	Yes
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 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.)	Yes
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?	Yes
5	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.)	Yes
		1 Multiplier Sum
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)? (See ranges on page 6.)	10
7	Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt? (See ranges on page 6.)	10

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 5 years was 7 percent or more, then the school district passes this indicator.) (See ranges on page 6.)	6
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?	10
10	Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges on page 7.)	10
11	Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges on page 7.)	8
12	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.)	10
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 3 percent of all expenditures by function?	10
14	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.)	10
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?	10
	94 Weighted Sum	
	1 Multiplier Sum	
	94 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

DISCUSSION OF BASE INDICATORS

- 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?**

This indicator merely states the District's requirement for timely reporting.

Spring ISD met all reporting requirements set by the TEA.

- 2. (A) Was there an unmodified opinion in the AFR on the financial statements as a whole?**

A "modified" version of the auditor's opinion in your annual audit report means that you need to correct some of your reporting or financial controls. A district's goal, therefore, is to receive an "unmodified opinion" on its Annual Financial Report.

Spring ISD obtained an "unmodified" audit opinion. This indicates that the District's records were in good condition and fairly presented Spring ISD's financial position.

- (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?**

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.

Spring ISD's Annual Financial Report was free of material weaknesses in internal controls.

- 3. Was the school district in compliance with the payment terms of all debt agreements at fiscal year end?**

This indicator seeks to make certain that your district has paid your bills/obligations on financing arrangements to pay for school construction, school buses, photocopiers, etc.

Spring ISD was in compliance with the payment terms of all debt agreements at fiscal year-end.

- 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.

Spring ISD made timely payments to the TRS, TWC, IRS, and other government agencies.

5. **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?**

This indicator seeks to make certain that the District's total assets sufficiently exceed the total amount of liabilities.

Spring ISD had a total unrestricted net position of \$52,903,402.

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)?**

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.

Spring ISD's number of days of cash on hand and current investments was 107.59 days. The district received 10 points based on the determination of points scale:

10	8	6	4	2	0
≥ 90	$<90 \geq 75$	$<74 \geq 60$	$<60 \geq 45$	$<45 \geq 30$	<30

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

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.

At the end of the fiscal year, Spring ISD had current assets covering 5.53 times its current liabilities. The district received 10 points based on the determination of points scale:

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

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 5 years was 7 percent or more, then the school district passes this indicator.)**

This question is like asking someone if their mortgage exceeds the market value of their home.

Spring ISD's ratio of long-term liabilities to total assets was 0.76, which earned the district 6 points based on the determination of points scale:

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

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 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' cash on hand.)

Spring ISD's general fund revenues exceeded expenditures and had 107.59 days of cash on hand, which earned the district 10 points.

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

This indicator asks about the school district's ability to make debt principal and interest payments that will become due during the year.

Spring ISD's debt service coverage ratio was 2.25. The district received the maximum of 10 points based on the determination of points scale:

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

11. Was the school district's administrative cost ratio equal to or less than the threshold ratio?

This indicator measures the percentage of their budget that Texas school districts spent on administration.

Spring ISD's administrative cost ratio was 0.103. The district received 8 points based on the determination of points scale for districts with average daily attendance of 10,000 and higher.

ADA Size	10	8	6	4	2	0
10,000 and Above	≤ 0.0855	> 0.0855 ≤ 0.1105	> 0.1105 ≤ 0.1355	> 0.1355 ≤ 0.1605	> 0.1605 ≤ 0.1855	> 0.1855

12. 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.)

If the school district had a decline in students over 3 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.)

Spring ISD's decline in the students to staff ratio over 3 years was less than the threshold of 15 percent, which earned the district 10 points.

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 3 percent of all expenditures by function?

This indicator measures the quality of data reported to PEIMS and in your 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 3 percent or more, your district “fails” this measure.

Spring ISD's variance was less than the threshold of 3 percent, which earned the district 10 points.

14. 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.)

A clean audit of the Annual Financial Report would state that your 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 external independent auditors found that Spring ISD had no instances of material weaknesses in internal controls, which earned the district 10 points.

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.

Spring ISD met the requirement by having no adjusted repayment schedule, which earned the district 10 points.

OTHER DATA CONCERNING THE DISTRICT'S OPERATIONS

The purpose of this section is to discuss other aspects of the District's business operations not directly covered by the School FIRST Worksheet.

Administrative Cost Comparison

One measure the State of Texas uses to measure operating cost efficiency is the administrative cost ratio. There is a formula mandated by law. The administrative costs are divided by instructional costs to arrive at a percentage. A district's size determines its administrative cost limitations.

<u>Year</u>	<u>State Limit</u>	<u>District Actual</u>
12-13	11.05%	6.25%
13-14	8.55%	7.26%
14-15	8.55%	8.33%
15-16	8.55%	9.18%
16-17	8.55%	10.30%

Debt Management

At June 30, 2017 the total outstanding general obligation and refunding bonds was \$695,255,000 with interest rates ranging from 2.0% - 5.4% and maturities until 2042. The District works alongside financial advisors to schedule refunding of bonds to lower interest rates when the market allows. This shows a commitment to reducing outstanding debt. The District has worked diligently to schedule bond maturities and interest payments to smooth out the impact on the tax rate and to match the useful life of capital assets being purchased and/or constructed.

Operating Cost Management

The majority of the District's total General Fund expenditures are variable in nature. Over 85% of total expenditures is comprised of salaries and benefits. Contracted services, supplies, materials and other operating costs make up the remainder of what is referred to as operating (fixed/controllable) costs. The chart below illustrates how the District's operating cost per student compares to our neighboring districts.

<u>District</u>	<u>Operating Cost</u>	<u>Average Daily Attendance</u>	<u>Operating Cost Per Student</u>
Spring Branch	\$390,315,215	32,554	\$11,990
Aldine	733,199,267	63,320	11,579
Humble	400,902,536	38,506	10,411
Spring	341,291,128	33,416	10,213
Klein	491,479,515	48,807	10,070
Katy	704,731,635	72,013	9,786
Cy Fair	1,039,309,841	114,842	9,050

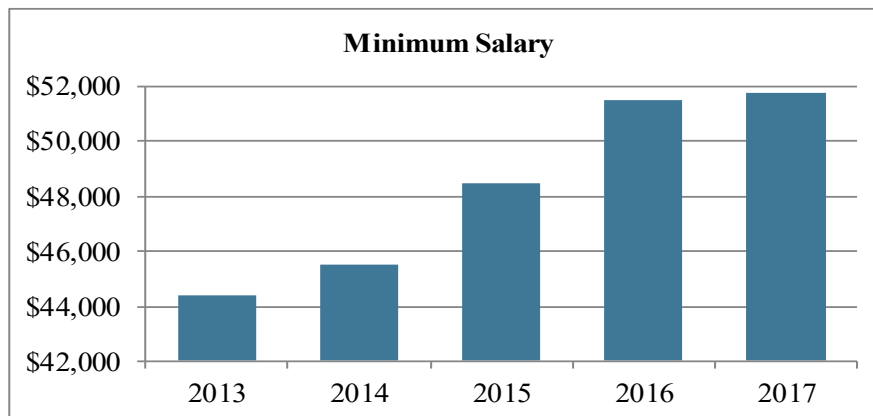
Facilities Acquisition and Construction Management

On November 8, 2016, Spring ISD voters approved the 2016 Bond Election. The Bond Election authorized \$330,000,000 in bonds, of which \$225,000,000 were issued in February 2017. The proceeds from the bond will address longstanding facility, technology, and safety and security needs.

Personnel Management

The District's longstanding personnel goal is to attract and retain qualified staff and to offer a competitive salary and benefits package each year. Attracting and retaining a quality teaching staff is always a priority of Spring ISD.

The District realizes that it must remain competitive in terms of salary in order to attract and retain highly qualified teachers. One of the District's goals is to move all teachers into the top quartile of teachers' salaries in the Houston area. A reflection of this effort can be seen in the chart below which illustrates an increase in the minimum teacher salary over the past five years. The minimum teacher salary has increased by 16.5% from 2013 to 2017.



Tax Collections

A consistent tax collection rate aids in the management of debt. As shown below, the District maintains a high collection rate.

<u>Year</u>	<u>Collection Rate</u>
12-13	99.74%
13-14	99.71%
14-15	99.65%
15-16	99.53%
16-17	98.34%

Cash Management

The Schools FIRST worksheet addresses cash and investment issues, but only in a very basic manner. The worksheet criterion provides that the cash on hand be sufficient to cover operating expenditures without receiving any new revenues. The District's investment and cash management program is much more complex.

The District has a legal and local board policy that requires the District to invest funds within specific guidelines meant to ensure liquidity and safety. The District maintains a diverse portfolio consisting of investment pools and money market accounts. The District takes advantage of the opportunity for increased yield with longer term instruments such as certificates of deposits, U.S. Treasuries, Federal Agency Securities, and Federal Instrumentality Securities whenever possible.

The District frequently performs reviews of investment activity and performance, and submits a report to the Board of Trustees, on a quarterly basis.

Budgetary Planning & Financial Allocations

The District's budget process usually begins in January each year. During the first month, an analysis is done of projected revenues and expenditures to determine the priority of the budget process. Budget allocations are developed for each campus and department. The District allocates funds to campuses based on projected student enrollment. Support departments must create a zero-based budget and justify the need for the requested funds. Budget input is scheduled for February. In February, calculations of state and local tax revenues are completed and the budget starts to take on some form. March is the month the District is able to give the Board a view of how the next year's budget looks. In odd-numbered years, the legislature is in session, and that complicates and delays the budgeting process. The optimal time for making a public salary decision is May. Decisions are made on special project requests, revenue data is fine-tuned and a final budget is submitted to the Board of Trustees for approval in either May or June.

Each department budget must exhibit alignment with the District's Five-Year Strategic Plan. After the budget is adopted, each campus or department is given equal latitude regarding amending their budget when their plans or needs change. This decentralized style of budget management is required by the state of Texas. It is called site-based decision making. It is a system that works best in the long run for the District by allocating resources where they are needed, even when those needs change.

Annual Audit Report

Each year, an audit of the District's financial statements is performed by the independent auditors, Whitley Penn, LLP. The auditors' responsibility is to report on the District's financial status and to ensure that the District is accurately handling the financial records within required standards. This report is a critical element of the accountability ratings worksheet, covering five criteria.

For the fiscal year ended June 30, 2017, the District received an "unmodified" opinion with no reportable conditions or material weaknesses.

Awards and Recognitions

Spring ISD prides itself in its professional and proper handling of its internal accounting procedures and financial reporting abilities. For 36 years, the Government Finance Officers Association of the United States and Canada (GFOA) has awarded the District a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report. Additionally, the District has received the Association of School Business Officials' (ASBO) Certificate of Excellence in Financial Reporting for 36 years. Both associations have stringent requirements for their awards and it is a credit to the District and its taxpayers to be recognized nationally in such a manner.

SCHOOLS FIRST DISCLOSURES

Per Title 19 Administrative Code Chapter 109, Budgeting, Accounting, and Auditing, Subchapter AA, Commissioner's Rules Concerning Financial Accountability Rating System, the six (6) disclosures listed below are included in this appendix:

1. Current Superintendent's employment contract.

The Superintendent's contract is included as "Attachment A" and can be found on the Spring ISD website at: <http://www.springisd.org/superintendent>

2. Reimbursements received by the Superintendent and Board Members for Fiscal Year 2017.

Description of Reimbursements	Dr. Rodney Watson, Superintendent
Meals	\$1,455
Lodging	5,791
Transportation	6,227
Motor Fuel	0
Other	1,903
Total	\$15,376

	Dr. Deborah Jensen	Chris A. Bell	Justine Durant	Rhonda L. Faust	Rhonda Newhouse	Donald Davis	Jana Gonzalez
Description of Reimbursements	Position #1	Position #2	Position #3	Position #4	Position #5	Position #6	Position #7
Meals	\$171	\$73	\$302	\$0	\$336	\$593	\$244
Lodging	2,674	1,697	2,141	0	2,241	2,822	1,431
Transportation	1,103	553	829	0	2,099	1,256	376
Motor Fuel	0	0	0	0	0	0	0
Other	1,919	1,455	1,515	325	1,811	2,735	1,501
Total	\$5,867	\$3,778	\$4,787	\$325	\$6,487	\$7,406	\$3,552

Note: Items reported per category, regardless of manner of payment, include:

- Meals - Meals consumed off of the school district's premises and in-district meals at area restaurants (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.

3. Outside compensation and/or fees received by the Superintendent for professional consulting and/or other personal services in Fiscal Year 2017.

For the Twelve-Month Period Ended June 30, 2017	
Name(s) of Entity(ies)	Amount
None	
Total	\$0

4. Gifts received by the executive officer(s) and Board Members (and first degree relatives, if any) in Fiscal Year 2017.

For the Twelve-month Period Ended June 30, 2017	Dr. Rodney Watson Superintendent
Summary Amounts	\$0

For the Twelve-month Period Ended June 30, 2017	Dr. Deborah Jensen	Chris A. Bell	Justine Durant	Rhonda L. Faust	Rhonda Newhouse	Donald Davis	Jana Gonzalez
	Position #1	Position #2	Position #3	Position #4	Position #5	Position #6	Position #7
Summary Amounts	\$0	\$0	\$0	\$0	\$0	\$0	\$0

5. Business transactions between Board Members and the district.

For the Twelve-month Period Ended June 30, 2017	Dr. Deborah Jensen	Chris A. Bell	Justine Durant	Rhonda L. Faust	Rhonda Newhouse	Donald Davis	Jana Gonzalez
	Position #1	Position #2	Position #3	Position #4	Position #5	Position #6	Position #7
Summary Amounts	\$0	\$0	\$0	\$0	\$0	\$0	\$0

6. Any other information the Board Members of the school district determines to be useful.

None.

SPRING INDEPENDENT SCHOOL DISTRICT
SUPERINTENDENT'S EMPLOYMENT CONTRACT

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This Employment Contract (the "Contract") is made and entered into by and between the Board of Trustees (the "Board") of the Spring Independent School District (the "District"), located in Harris County, Texas, and Rodney E. Watson (the "Superintendent").

WITNESSETH:

Now, therefore, the Board and the Superintendent, for and in consideration of the terms hereinafter established and pursuant to Chapter 21 and Section 11.201 of the Texas Education Code and the general laws of the State of Texas, have agreed, and do hereby agree as follows:

I. Term

1.1 The Board, by and on behalf of the District, does hereby employ the Superintendent, and the Superintendent does hereby accept employment as Superintendent of Schools for the District. The term of this contract ends on June 30, 2022. The contract year will be July 1 through June 30. The District may, by action of the Board, and with the consent and approval of the Superintendent, extend the term of this Contract as permitted by state law. However, there is no requirement or duty for the Board to extend this Contract.

II. Employment

2.1 Duties. The Superintendent is the educational leader and chief executive of the District and shall faithfully perform the duties of the Superintendent of Schools for the District as prescribed by state law, Board policies, in the job description and as may be lawfully assigned by the Board. The Superintendent shall comply with all lawful Board directives, state and federal law and regulations, and district policies, rules and regulations as they exist or may hereafter be amended or adopted during the term of this Contract. Except as provided in this Contract, the Superintendent agrees to devote his full time, energy and skill to the performance of the duties of the Superintendent of Schools for the District using reasonable care, diligence, and expertise.

2.2 Professional Certification. The Superintendent shall at all times during the term of this Contract, and any renewal or extension thereof hold and maintain valid and appropriate certifications or permits required to act as a superintendent as prescribed by the laws of the State of Texas and the rules and regulations of the Texas Education Agency and/or the State Board for Educator Certification and all other certificates required by law. The Superintendent shall provide evidence of such certifications or permits to the Board upon request at any time. The Superintendent shall also provide evidence of educational attainment, degrees earned, previous professional experience, and other records required for personnel files of the District. Failure to

maintain valid and appropriate certifications or permits shall render this Contract void, and any material misrepresentation in any records provided to the District shall be grounds for termination.

2.3 Reassignment. The Superintendent is employed specifically and solely to perform the duties of Superintendent of Schools for the District. The Superintendent cannot be reassigned from the position of Superintendent to another position without the mutual express written consent of the Superintendent and the Board.

2.4 Board Meetings. The Superintendent may attend, and may be permitted to attend, all meetings of the Board, both public and closed, with the exception of those closed meetings devoted to the consideration of any action or lack of action on the Superintendent's Contract or the Superintendent's salary or benefits as set forth in this Contract or the Superintendent's evaluation and performance, to interpersonal relationships between individual Board members, when the Board is considering the appointment or replacement of a Board member or when the Board is acting in its capacity as a tribunal to hear and resolve any complaint. The Board expects the Superintendent to be at all meetings of the Board.

2.5 Indemnity. To the extent it may be permitted to do by applicable law, including, but not limited to Texas Civil Practice & Remedies Code Chapter 102, the District does hereby agree to defend, hold harmless, and indemnify the Superintendent from any and all demands, claims, suits, actions, judgments, expenses and attorneys' fees incurred in any legal proceeding against the Superintendent in his individual capacity or his official capacity for any act or failure to act involving the exercise of judgment and discretion within the normal course and scope of his duties as Superintendent of the District, to the extent and to the limits permitted by law. This paragraph does not apply if the Superintendent is found to have breached this Contract, committed official misconduct, or committed a willful or wrongful act or omission, or an act or omission constituting gross negligence, or acted in bad faith, with conscious indifference or reckless disregard, or with intent to violate a person's clearly established legal rights, or engaged in criminal conduct. Excluded are any costs, fees, expenses or damages that would be recoverable or payable under an insurance contract, held either by the District or by the Superintendent. The selection of the Superintendent's legal counsel shall be with the mutual agreement of the Superintendent and the District if such legal counsel is not also District's legal counsel. The District may, at its sole option, comply with this paragraph by purchasing appropriate insurance coverage for the Superintendent or by including the Superintendent as a covered party under any errors and omissions insurance coverage purchased for protection of the Board and District professional employees, in which case the Superintendent's right to agree to legal counsel provided for him will depend on the terms of the applicable insurance contract. No individual Board member shall be personally liable for indemnifying and defending the Superintendent under this paragraph. The Board shall not be required to pay any costs of any legal proceedings in the event the Board and the Superintendent are adverse to each other in any such proceedings. The District's obligation under this Section shall continue after the termination of this Contract for qualifying acts or failures to act occurring during the term of this Contract or any extension thereof. The Superintendent shall fully cooperate with the District in the defense of any and all demands, claims, suits, actions and legal proceedings brought against the District at no cost to the District. The Superintendent's and District's rights and obligations

under this Section shall continue after the termination of this Contract. To the extent this Section 2.5 exceeds the authority provided and limitations imposed by Texas Civil Practice & Remedies Code, Chapter 102, it shall be construed and modified accordingly.

2.6 Consulting. During the term of this Contract, the Superintendent will not engage in any consulting activities for a fee, or in any outside employment without the prior consent of the Board. The Superintendent will comply with all state laws, District policies, rules and regulations regarding conflict of interest and fraud as they exist or may hereafter be amended or adopted during the term of this Contract.

2.7 Complaints. The Board, individually and collectively shall refer all substantive complaints from staff and/or third parties to the Superintendent for review and appropriate action. The Superintendent will investigate such matters and inform the Board of the results of such action. Substantive complaints include allegations of possible wrongdoing by staff and/or students, complaints of possible criminal behavior by staff and/or students, and complaints about personnel which, if true, would require action by the Superintendent and/or administration. The Board retains the right to investigate complaints about the Superintendent. The Superintendent shall refer all substantive complaints from staff and/or third parties regarding a Board member to the Board President for review and action. If the complaint is about the Board President, the Superintendent shall refer the complaint to the next most senior non-implicated Board officer or, if necessary, Board member.

III. Compensation and Benefits

3.1 Salary. The District shall provide the Superintendent with an annual base salary in the sum of Two Hundred Sixty-Seven Thousand Eight Hundred Fifty-One and 84/100 Dollars (\$267,851.84). This annual base salary shall be paid to the Superintendent on a twelve-month ratable basis consistent with the Board's policies and in accordance with the District's normal payroll practices.

3.2 Salary Adjustments. In the annual budget adopted for each subsequent year of this Contract, at any other time at which the Board is considering salary adjustments for administrative personnel, or at any other time determined by the Board during the term of this Contract, the Board may, in its discretion, review and adjust the salary of the Superintendent, but in no event shall the Superintendent be paid less than the base salary set forth pursuant to Section 3.1 of this Contract except by mutual agreement of the two parties. Discretionary increases in salary shall be based on the Superintendent's annual performance evaluation and shall be at the discretion of the Board. Regardless of whether a discretionary increase is enacted, each year, upon receiving an evaluation with a score of satisfactory or above, the Superintendent shall receive the same percentage increase to his base salary as other twelve-month administrators; *i.e.* principals, central office administrative staff. Salary adjustments shall be made pursuant to a lawful Board action, and they shall be in the form of a written addendum to this Contract or a new Contract.

3.3.1 Nonduty Days. The Superintendent shall work two hundred twenty six (226) duty days each year for which this Contract is in effect in accordance with the professional calendar

adopted by the Board for each year. For the remainder of the 2017-2018 fiscal year, the Superintendent is allocated eight (8) nonduty days in addition to the nonduty days for administrative employees on 226 day contracts set forth in the professional calendar adopted by the Board. Beginning with the 2018-2019 fiscal year, the Superintendent is allocated fifteen (15) nonduty days per fiscal year. At the Superintendent's choice, subject to approval by the Board President, the Superintendent may take these nonduty days in a single period or at different times, and they will be taken at such time or times as will least interfere with the performance of the Superintendent's duties as set forth in this Contract. All nonduty days used by the Superintendent shall be treated as equivalent to one calendar day regardless of the work schedule of District staff at the time of use of the nonduty day. At the conclusion of any contract year, on or before June 30, all unused nonduty days accumulated by the Superintendent that year will be paid in a lump sum to the Superintendent at the Superintendent's then current daily rate of base pay, based on a 226 day work year.

3.3.2 Local Leave Days. The Superintendent is hereby granted the same local sick leave days as authorized by Board policies for administrative employees on two hundred twenty six (226) day contracts. All local leave days used by the Superintendent shall be treated as equivalent to one calendar day regardless of the work schedule of District staff at the time of the use of the local leave day.

3.4 Professional Growth. The Superintendent shall devote the Superintendent's time, attention, and energy to the direction, administration, and supervision of the District. The Board encourages the continued professional growth of the Superintendent through the Superintendent's active attendance at and participation in appropriate professional meetings at the local, regional, state and national levels. In its encouragement of the Superintendent to grow professionally, the Board shall permit a reasonable amount of release time for the Superintendent, with prior approval of the Board President, to attend such seminars, courses or meetings, provided that such attendance does not interfere with the performance of his duties as Superintendent. The District shall pay the Superintendent's basic membership dues to professional organizations such as the Texas Association of School Administrators, the American Association of School Administrators and other organizations as he deems appropriate for the performance of his duties.

3.5 Expense Allowance. In addition to the base compensation reflected in Paragraph 3.1, the Superintendent will receive certain allowances per month to cover the cost of all reasonable and necessary expenses incurred in the continuing performance of the Superintendent's duties under this contract, which shall be paid in accordance with the District's normal payroll practices. The Superintendent will receive a car allowance of One Thousand Fifty and no/100 Dollars (\$1,050.00) per month. This allowance covers travel in the Superintendent's personal vehicle at all times. When the Superintendent travels in his personal vehicle on District business to destinations outside of Region IV, the District will reimburse his actual mileage traveled at the current IRS rate per mile. The Superintendent will provide his own cellular phone and will receive One Hundred Fifty and no/100 Dollars (\$150.00) per month to cover all expenses associated with his business use of the cellular phone.

3.6 Civic and Professional Activities. The Superintendent is encouraged to attend and participate in meetings and events involving local community groups such as Rotary Club, Kiwanis Club, North Houston Chamber of Commerce, Spring Education Foundation, Region IV Education Service Center, Harris County Department of Education and similar groups as a representative of the District. If meetings and events will incur a cost or fee, the cost or fee will be paid by the District. The Superintendent shall also attend and participate in meetings outside the Houston area as the representative of the District. He shall also attend and participate in appropriate professional meetings at the state and national levels such as, but not limited to, the Texas Education Agency Mid-Winter Conference for superintendents, meetings of the Texas Association of School Boards and the National School Boards Association, and meetings of the Texas Association of School Administrators. The District will pay the reasonable and necessary costs associated with attendance including airline tickets, mileage, hotel and accommodations, meals, rental cars, taxis and other similar expenses. Prior to all such travel, the Superintendent will advise the Board President and obtain pre-approval.

3.7 Computer, Fax Machine, and Pager. The District shall provide for a personal computer system and fax machine, at the District's expense, which the Superintendent may use in his home office for both business and personal use, provided that such personal use is legal and does not interfere with the use of the equipment for business purposes. The computer used by the Superintendent while at work may also be used for personal matters, provided that such personal use is legal and does not interfere with use of the equipment for business purposes. The District will pay the Superintendent an allowance of \$100 per month for Internet service to his home and a dedicated fax line, which shall be paid in accordance with the District's normal payroll practices. All equipment remains the property of the District.

3.8 Annual Physical Examination. The Superintendent shall undergo an annual physical examination performed by a licensed physician mutually acceptable to the Board and the Superintendent. The physician shall submit a confidential statement to the Board President who will report to the Board verifying the Superintendent's fitness to perform the Superintendent's duties and copies of all statements shall be maintained in the Superintendent's personnel file to the extent permitted by law. The Superintendent shall execute all necessary authorizations required by law (including, without limitation, the Health Insurance Portability and Accountability Act of 1996, as amended) to permit the Board to review any such physician statements. The District shall pay all costs of the annual physical examination during the Superintendent's employment with the District. Beginning December 1, 2014, and by December 1 in subsequent years, the Superintendent shall provide the Board President a confidential statement from the physician who conducted his most recent physical examination verifying that the Superintendent does not have any condition that will impair his fitness or ability to perform the duties of the position of Superintendent of Schools for the District.

3.9 Business Expenses. Subject to Board approval, the District shall pay or reimburse the Superintendent for reasonable expenses incurred by the Superintendent in the continuing performance of the Superintendent's duties under this Contract. Such costs may include, but are not limited to, hotels and accommodations, meals, rental car, and other expenses incurred in the performance of the business of the District.

3.10 Reimbursement. Whenever the District pays expenses on behalf of the Superintendent, or the Superintendent seeks reimbursement under Paragraph 3.4 for professional growth activities, under Paragraph 3.5 for mileage reimbursement for travel outside of Region IV, under Paragraph 3.6 for civic and professional activities, under Paragraph 3.8 for the annual physical examination, or under Paragraph 3.9 for business expenses, the Superintendent will comply with all policies, procedures and documentation requirements regarding such payments and reimbursement in accordance with Board policy and established procedures, as required by the District's independent auditors, and/or state and federal laws and regulations regarding such business expenses. These expenses will be subject to review by the District's independent auditors.

3.11 Health Insurance. In addition to the base compensation reflected in Paragraph 3.1, the Superintendent will receive an allowance per month to cover the cost of the employee-paid portion of the health insurance premiums on behalf of the Superintendent and his spouse and dependent children for the insurance plan he selects from among those available to District employees. This allowance will be fully taxable to the Superintendent, and such allowance will not be considered to be a part of any health insurance plan. The Superintendent must comply with all requirements and limitations of the plan the Superintendent selects including, but not limited to, any requirements concerning pre-existing medical conditions.

3.12 Life Insurance. The District shall pay \$150.00 per month for the premium toward the purchase of a term life policy on the life of the Superintendent. The term life insurance policy provided hereunder shall be owned by the Superintendent, with the Superintendent having the sole right to determine the beneficiary(ies) under the life insurance policy. The Superintendent shall pay federal income taxes on all premiums paid on such life insurance policy.

3.13 Effect of Termination on Compensation. In the event of termination of this contract prior to the completion of the term of employment specified herein, for any reason, whether voluntary or involuntary, the Superintendent shall be paid for the days worked and earned by him prior to the date of termination in accordance with the District's normal payroll practices at his daily rate current at that time computed pro rata up to the date of termination, but shall be entitled to no further compensation except as otherwise provided by law or this Contract, or by agreement of the District and the Superintendent. This paragraph and its terms in no way limit the Superintendent's rights to damages for breach of this Contract. In the event the Board proposes the termination of this Contract for good cause, the Superintendent shall be afforded all the rights set forth in the Board's policies, and in state and federal law.

3.14 Annuity. As an incentive for the Superintendent to remain in the position and provide outstanding and stable leadership to the District, the District shall establish for the Superintendent a qualified annuity or other investment account that meets the requirement of Section 403(b) of the Internal Revenue Code of 1986, as amended (the "Code") ("403(b) Annuity"). The 403(b) Annuity is to be mutually acceptable to the Superintendent and to the Board and will be determined on an annual basis. While the Superintendent is employed under this Contract, the District shall contribute to the 403(b) Annuity the lesser of (i) the sum of \$12,500, or (ii) the maximum amount that can be contributed without causing any portion of such contribution to be in the Superintendent's taxable income for the year in which the contribution is made, in June of each contractual year for and on behalf of the Superintendent,

beginning in June 2015. The Superintendent will vest in the 403(b) Annuity, including any earnings or interest thereon, in limited fashion over time. The Superintendent will vest in the amount contributed in June 2015, including any earnings (or losses) or interest thereon, at the rate of 25% per year of service on each June 30 beginning in the year of contribution. As a result, with respect to the June 2015 contribution, the Superintendent will vest 25% on June 30, 2015; 25% on June 30, 2016; 25% on June 30, 2017; and 25% on June 30, 2018. The Superintendent will vest in the amounts contributed in subsequent years during the term of this Contract at the same rate per year of service and in the same manner (*i.e.*, a new four-year vesting schedule with respect to each contribution).

Notwithstanding the foregoing, if the Superintendent's employment with the District is terminated for any reason, he shall be entitled to only the vested portion of the 403(b) Annuity as of the date of such termination and shall forfeit any unvested portion.

The Chief Financial Officer shall be authorized to take the actions necessary to establish the 403(b) Annuity, and to appropriate the funds necessary to execute this provision of this contract.

3.15 Attendance. The Superintendent may choose the District campus his children of public school age will attend so long as the child meets the guidelines for the program of study in which he or she seeks to enroll.

IV. Annual Performance Goals

4.1 Development of Goals. The Superintendent shall submit to the Board each year, for the Board's consideration and adoption, a preliminary list of goals for the District. The goals approved by the Board shall at all times be reduced to writing and shall be among the criteria on which the Superintendent's performance is reviewed and evaluated.

4.2 On or before October 1 of each year during the term of this Contract, the Board and the Superintendent do hereby agree to review, revise, approve, and reduce to writing the District goals.

V. Review of Performance

5.1 Time and Basis of Evaluation. The Board shall evaluate and assess in writing the performance of the Superintendent each year during the term of this Contract. The summative evaluation will be in January each year, a mid-year formative evaluation will be done between April and June of each year, and an evaluation will be done at such other times as deemed necessary and appropriate by the Board. The evaluation and assessment shall be in accordance with Board policies and state and federal law, and shall be reasonably related to the duties of the Superintendent as outlined in the Superintendent's job description, Board policies, lawful Board directives, the goals adopted in Paragraphs 4.1 and 4.2, and as prescribed by law.

5.2 Confidentiality. Unless the Superintendent expressly requests in writing, the evaluation of the Superintendent shall at all times be conducted in closed session and shall be considered

confidential to the extent permitted by law. Nothing herein shall prohibit the Board or the Superintendent from sharing the content of the Superintendent's evaluation with their respective legal counsel.

5.3 Evaluation Format and Procedure. The evaluation format and procedure shall be in accordance with the evaluation instrument selected by the Board, the Board's policies, state law and with the input of the Superintendent. In the event that the Board deems that the evaluation instrument, format and/or procedure is to be modified by the Board, and such modifications would require new or different performance expectations, the Superintendent shall be provided a reasonable period of time to demonstrate such expected performance before being evaluated.

VI. Renewal, Nonrenewal or Termination of Employment Contract

6.1 Renewal/Nonrenewal. Renewal or nonrenewal of this Contract shall be in accordance with Board policy and applicable state and federal law.

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

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

6.4 Resignation. 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 no later than the forty-fifth (45th) day before the first day of instruction of the following school year. The Superintendent may resign, with the consent of the Board, at any other time.

6.5 Disability of Superintendent. Should the Superintendent be unable to perform any or all of the duties of his position by reason of illness or accident, he may use all accumulated state sick leave days, local sick leave days, nonduty days, and any other leave available to the Superintendent pursuant to applicable law. After exhausting all applicable leave days, if the Superintendent cannot resume his duties, a determination of disability will be made by the Board based on a physical examination performed by a licensed physician selected by the Superintendent. The Board may obtain a second opinion from another licensed physician of its choosing. If the Superintendent is determined to be disabled and incapable of resuming all of his material duties and obligations of employment, the District and the Superintendent hereby mutually agree that this Contract will terminate at that time without the necessity of any further action by the Board or the Superintendent, and the Superintendent hereby waives all his rights to a hearing in consideration for the payment of three months salary and benefits by the District upon termination of this Contract due to disability; provided that any such payment shall be made no later than the 15th day of the third month following the calendar year of the date of the termination of this Contract due to disability. During any period when the Superintendent is unable to perform any or all of his duties by reason of illness or accident, the Board may appoint

a person as acting superintendent until the Superintendent is able to resume his duties if the Board determines it is in the best interests of the District to do so.

6.6 Dismissal for Good Cause. The Board may dismiss the Superintendent during the term of the Contract for good cause. The term “good cause” is defined as follows:

- a. Failure to fulfill duties or responsibilities as set forth under the terms and conditions of this Contract;
- b. Incompetence or inefficiency in the performance of required or assigned duties as documented by evaluations, supplemental memoranda, or other written communication from the Board; provided, however, the terms and conditions of this paragraph shall not justify good cause unless the Board has provided the Superintendent a reasonable opportunity to remediate any incompetency or inefficiency.
- c. Insubordination or failure to comply with lawful written Board directives;
- d. Failure to comply with written Board Policies or District 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 substantially impairs the Superintendent’s performance of required duties;
- l. Immorality, which is conduct not in conformity with the accepted moral standards of the community encompassed by the District. Immorality is not confined to sexual matters, but includes conduct inconsistent with rectitude or indicative of corruption, indecency or depravity;
- m. Assault on an employee or student;
- n. Knowingly falsifying records or documents related to the District’s activities;
- o. Conscious misrepresentation of material facts to the Board or other District officials in the conduct of the District’s business;
- p. Failure to fulfill requirements for superintendent certification;
- q. Failure to fulfill the requirements of a deficiency plan under an Emergency Plan; or,
- r. Any other reason constituting “good cause” under Texas law.

6.7 Termination Procedure. In the event the Board proposes the termination of this Contract for “good cause,” the Superintendent shall be afforded all the rights as set forth in the Board’s policies, and state and federal law.

VII. Miscellaneous

7.1 Controlling Law. This Contract shall be governed by the laws of the State of Texas and shall be performed in Harris County, Texas, unless otherwise provided by law. Venue for any dispute concerning the interpretation and/or enforcement of this Contract shall be in Harris County, Texas.

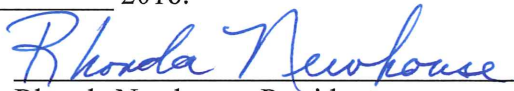
7.2 Complete Agreement and Amendment. This Contract embodies the entire agreement between parties hereto and supersedes all other agreements and understandings, both written and oral. Any additions, deletions, or modifications to the terms and conditions of this Contract, including but not limited to changes in the term of the Contract or the annual base salary of the Superintendent, shall be made only by written addendum or new contract signed by both parties.

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

7.4 Savings Clause. In the event any one or more of the provisions contained in this Contract shall, for any reason, be held 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.

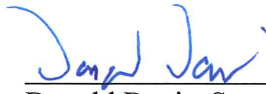
7.5 Section 409A. Notwithstanding anything to the contrary, to the extent required by Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"): (a) the amount of expenses eligible for reimbursement or to be provided as an in-kind benefit under this Contract during the calendar year may not affect the expenses eligible for reimbursement or to be provided as an in-kind benefit in any other calendar year; (b) the right to reimbursement or in-kind benefits under this Contract shall not be subject to liquidation or exchange for another benefit; and (c) no reimbursements shall be paid later than the last day of the calendar year following the calendar year that the expense was incurred.

EXECUTED this 24th day of April 2018.


Rhonda Newhouse, President
Board of Trustees Spring Independent
School District

Date: 4-24-18

ATTEST:



Donald Davis, Secretary
Board of Trustees Spring Independent
School District

Date: 4/24/18

EXECUTED this 24th day of April 2018.



Rodney E. Watson

Date: 4/24/18



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