



## Annual Financial Accountability Management Report

### Fiscal Year 2020-2021

#### *McAllen ISD Earns State's Highest Fiscal Accountability Rating*

For the 2020-2021 fiscal year, the McAllen Independent School District received a rating of “A” for “Superior” under Texas’ School FIRST financial accountability rating system. The “Superior” rating is the state’s highest, demonstrating the quality of McAllen Independent School District’s financial management and reporting system.

This is the 20th year of School FIRST (Financial Integrity Rating System of Texas), a financial accountability system for Texas school districts developed by the Texas Education Agency in response to Senate Bill 218 which was passed during the 77<sup>th</sup> Legislature, Regular Session, 2001, authorized the implementation of a financial accountability rating system, which is officially referred to as School FIRST. Changes in the Commissioner’s Rule for School FIRST that were finalized in May 2017 served to further clarify certain changes that were implemented in August 2015 in accordance with Section 49 of HB 5, enacted by the 83<sup>rd</sup> Texas Legislature, Regular Session, 2013. House Bill 5 amended Section 39.082 Texas Education Code to require the commissioner of education to include processes in the financial accountability rating system for anticipating the future financial solvency of each school district. 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.

The Texas Education Agency assigned one of four financial accountability ratings to Texas school districts, with the highest being “A” for “*Superior*,” followed by “B” for “*Above-Standard*,” “C” for “*Meets Standard*” and “F” for “*Substandard Achievement*.”

This Annual Financial Accountability Management Report covers many business-related issues; however, it focuses on the School FIRST rating worksheet. This worksheet was developed by representatives of the Texas Education Agency (TEA), the Texas Business and Educational Council (TBEC), and the Texas Association of School Business Officials (TASBO).

Changes in the Commissioner’s Rule for School FIRST indicators were implemented by the Texas Education Agency beginning fiscal year 2021 based on data from fiscal year 2020. The indicators increased from 15 to 20 and introduced five “Ceiling Indicators”.

The district is rated according to 20 indicators, based upon its relative performance, except for the **four critical indicators**. **A negative response to any of the four critical indicators results in the district receiving a rating of “Substandard Achievement”.** **A negative response to any of the five ceiling indicators supersedes any rating earned based on points.** **A negative response to all the five ceiling indicators results in the district receiving a “Substandard Achievement”.**

As of 2007, new reporting requirements were effective for the financial management report that is distributed at the School FIRST public hearing. In accordance with Title 19, Texas Administrative Code Chapter 109, Budgeting, Accounting, and Auditing, Subchapter AA, Commissioner’s Rules Concerning Financial Accountability Rating System, the following five (5) disclosures will be presented as appendices in the School FIRST financial management report:

1. Superintendent’s current Employment Contract
2. Reimbursements Received by the Superintendent and Board Members for Fiscal Year 2021
3. Outside Compensation and/or Fees Received by the Superintendent for Professional Consulting and/or Other Personal Services in Fiscal Year 2021
4. Gifts Received by the Executive Officer(s) and Board Members (and First-Degree Relatives, if any) in Fiscal Year 2021
5. Business Transactions between School District and Board Members for Fiscal Year 2021

McAllen Independent School District achieved the “A” for “*Superior Achievement*” rating under School FIRST for the 2019-2020 fiscal year.



**Financial Integrity Rating System of Texas**

## **Purpose of the Financial Integrity Rating System of Texas**

The Financial Integrity Rating System of Texas ensures that school districts will be held accountable for the quality of their financial management practices and achieve improved performance in the management of their financial resources.

It discloses the quality of local management and decision-making processes that impact the allocation of financial resources in Texas public schools.



## Financial Integrity Rating System of Texas

### 2020-2021 WITH 2019-2020 COMPARISON DISTRICT STATUS DETAIL

#### 2020-2021

**Name: MCALLEN ISD (108906)**  
**Rating: A = Superior Achievement**  
**Indicators Answered YES: 4**  
**Indicators Answered NO: 0**  
**Ceiling Indicators Passed: 5**  
**Points Earned: 100 of 100**

#### 2019-2020

**Name: MCALLEN ISD (108906)**  
**Rating: A = Superior Achievement**  
**Indicators Answered YES: 4**  
**Indicators Answered NO: 0**  
**Ceiling Indicators Passed: 5**  
**Points Earned: 90 of 100**

| Current Year # | Prior Year # | Indicator Description  | 2020-2021                 | 2019-2020                 |
|----------------|--------------|--|---------------------------|---------------------------|
| 1              | 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                       | Yes                       |
| 2              | 2            | Was there an unmodified opinion in the AFR in 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                       | Yes                       |
| 3              | 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                       | Yes                       |
| 4              | 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? (If the school district received a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the school district is considered to not have made timely payments and will fail critical indicator 4. If the school district was issued a warrant hold, the maximum points and highest rating that the school district may receive is 95 points, A = Superior Achievement, even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days.)   | Yes<br><br>Ceiling Passed | Yes<br><br>Ceiling Passed |
| 5              | 5            | This indicator is no longer being scored due to the impact of accounting changes implemented by the Governmental Accounting Standards Board.   |                           |                           |

| Current Year # | Prior Year # | Indicator Description   | 2020-2021      | 2019-2020      |
|----------------|--------------|---|----------------|----------------|
| 6              | 6            | Was the average change in (assigned and unassigned) fund balances over 3 years less than a 25 percent decrease or did the current year's assigned and unassigned fund balances exceed 75 days of operational expenditures? (If the school district fails indicator 6, the maximum points and highest rating that the school district may receive is 89 points, B = Above Standard Achievement.) | Ceiling Passed | Ceiling Passed |
| 7              | 7            | Was the number of days of cash on hand and current investments in the general fund for the school district sufficient to cover operating expenditures (excluding facilities acquisition and construction)?  | 10             | 10             |
| 8              | 8            | Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt?   | 10             | 10             |
| 9              | 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             |
| 10             | 10           | This indicator is currently not being scored due to the impact of the COVID-19 and ESSER funding on school district revenue.<br><br>Did the school district average less than a 10 percent variance (90% to 110%) when comparing budgeted revenues to actual revenues for the last 3 fiscal years?  | 10             | 10             |
| 11             | 11           | 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 increase of students in membership over 5 years was 7 percent or more, then the school district automatically passes this indicator.  | 10             | 10             |
| 12             | 12           | Was the debt per \$100 of assessed property value ratio sufficient to support future debt repayments?   | 10             | 10             |
| 13             | 13           | Was the school district's administrative cost ratio equal to or less than the threshold ratio?  | 10             | 10             |
| 14             | 14           | 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             | 10             |
| 15             | 15           | This indicator is currently not being scored due to the impact of the COVID-19 Pandemic on school district attendance.<br><br>Was the school district's ADA within the allotted range of the district's biennial pupil projection (s) submitted to TEA? If the district did not submit pupil projections to TEA, did it certify TEA's projections?  | 5              | 5              |

| Current Year # | Prior Year # | Indicator Description   | 2020-2021      | 2019-2020      |
|----------------|--------------|---|----------------|----------------|
| 16             | 16           | 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? (If the school district fails indicator 16, the maximum points and highest rating that the school district may receive is 89 points, B = Above Standard Achievement.)                               | Ceiling Passed | Ceiling Passed |
| 17             | 17           | 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.) (If the school district fails indicator 17, the maximum points and highest rating that the school district may receive is 79 points, C = Meets Standard Achievement.) | Ceiling Passed | Ceiling Passed |
| 18             | 18           | 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             | 0              |
| 19             | 19           | Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year end?  | 5              | 5              |
| 20             | 20           | Did the school board members discuss the district's property values at a board meeting within 120 days before the district adopted its budget? (If the school district fails indicator 20 the maximum points and highest rating that the school district may receive is 89 points, B = Above Standard Achievement.)   | Ceiling Passed | Ceiling Passed |

| Determination of Rating<br>2020-2021  |   |        |
|---|---|--------|
| A.  | Did the district answer 'No' to Indicators 1, 2, 3, or 4? If so, The District Rating is <b>F for Substandard Achievement</b> regardless of points earned. |        |
| B.  | Determine the rating by the applicable number of points.  |        |
|   | <b>A = Superior Achievement</b>   | 90-100 |
|   | <b>B = Above Standard Achievement</b>   | 80-89  |
|   | <b>C = Meets Standard Achievement</b>   | 70-79  |
|   | <b>F = Substandard Achievement</b>  | < 70   |
| <p><b>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.</b></p> <p>The school district receives an <b>F</b> if its scores below the minimum passing score, if it failed any critical indicator 1, 2, 3, or 4, if the AFR or the data were not both complete, or if either the AFR or the data were not submitted On time for FIRST analysis.</p> |   |        |

| <b>Ceiling Indicator<br/>2020-2021</b>  |                       |                                |
|---|-----------------------|--------------------------------|
| Did the school district meet the criteria for any of the following <b>ceiling indicators</b> 4, 6, 16, 17 or 20? If so, the school district's applicable maximum points and rating are disclosed below. Please note, an F = Substandard Achievement Rating supersedes any rating earned as the result of the school district meeting the criteria of a ceiling indicator. |                       |                                |
| <b>Determine the rating based on meeting ceiling criteria.</b>  | <b>Maximum Points</b> | <b>Maximum Points</b>          |
| <b>Indicator 4</b> (Timely Payments) – School district was issued a warrant hold.   | 95                    | A = Superior Achievement       |
| <b>Indicator 6</b> (Average Change in Fund Balance) – Response to indicator is <i>No</i> .  | 89                    | B = Above Standard Achievement |
| <b>Indicator 16</b> (PEIMS to AFR) – Response to indicator is <i>No</i> .   | 89                    | B = Above Standard Achievement |
| <b>Indicator 17</b> (Material Weakness) – Response to Indicator is <i>No</i> .  | 79                    | C = Meets Standard Achievement |
| <b>Indicator 20</b> (Property Values and Tax Discussion) – Response to Indicator is <i>No</i> .   | 89                    | B = Above Standard Achievement |

| <b>Determination of Rating<br/>2019-2020</b>  |  |                                |
|---|--|--------------------------------|
| A.  | Did the district answer 'No' to Indicators 1, 2, 3, or 4? If so, The District Rating is F for Substandard Achievement regardless of points earned. |                                |
| B.  | Determine the rating by the applicable number of points.   |                                |
|   | <b>A = Superior Achievement</b>  | 90-100                         |
|   | <b>B = Above Standard Achievement</b>  | 80-89                          |
|   | <b>C = Meets Standard Achievement</b>  | 70-79                          |
|   | <b>F = Substandard Achievement</b>   | < 70                           |
| <b>Ceiling Indicator<br/>2019-2020</b>  |  |                                |
| Did the school district meet the criteria for any of the following <b>ceiling indicators</b> 4, 6, 16, 17 or 20? If so, the school district's applicable maximum points and rating are disclosed below. Please note, an F = Substandard Achievement Rating supersedes any rating earned as the result of the school district meeting the criteria of a ceiling indicator. |  |                                |
| <b>Determine the rating based on meeting ceiling criteria.</b>  | <b>Maximum Points</b>  | <b>Maximum Points</b>          |
| <b>Indicator 4</b> (Timely Payments) – School district was issued a warrant hold.   | 95   | A = Superior Achievement       |
| <b>Indicator 6</b> (Average Change in Fund Balance) – Response to indicator is <i>No</i> .  | 89   | B = Above Standard Achievement |
| <b>Indicator 16</b> (PEIMS to AFR) – Response to indicator is <i>No</i> .   | 89   | B = Above Standard Achievement |
| <b>Indicator 17</b> (Material Weakness) – Response to Indicator is <i>No</i> .  | 79   | C = Meets Standard Achievement |
| <b>Indicator 20</b> (Property Values and Tax Discussion) – Response to Indicator is <i>No</i> .   | 89   | B = Above Standard Achievement |

*A “Negative Response” to any of the four indicators result in the district receiving a rating of “F for Substandard Achievement”*

**&**

*A Negative Response” to any of the five ceiling indicators supersedes any rating earned based on points. A negative response to all the five ceiling indicators results in the district receiving a “Substandard Achievement”.*

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?**

The district’s Annual Financial Report was filed with the Texas Education Agency on November 16, 2021.

2. **Was there an unmodified opinion in the AFR in 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.)**

A modified opinion in the annual financial report would have meant that corrections were needed in some of the district’s reporting or financial records. A district’s goal is to receive an “unmodified opinion” on its Annual Financial Report.

The opinion expressed by the district’s Independent Auditor on the Annual Financial Report for June 30, 2021, was unmodified, the highest level of assurance.

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 term of a debt covenant, contract, or master promissory note even though payments to the lender, trust, or sinking fund are current. A debt agreement is a legal agreement between a debtor (= person, company, etc. that owes money) and their creditors, which includes a plan for paying back the debt.)**

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

McAllen ISD met bonded indebtedness obligations.

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? (If the school district received a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the school district is considered to not have made timely payments and will fail critical indicator 4. If the school district was issued a warrant hold, the maximum points and highest rating that the school district may receive is 95 points, A = Superior Achievement, even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days.)**

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.

McAllen ISD met all payroll obligations, meeting the ceiling indicator.

5. **This indicator is no longer being scored due to the impact of accounting changes implemented by the Governmental Accounting Standards Board.**

- 6. Was the average change in (assigned and unassigned) fund balances over 3 years less than a 25 percent decrease or did the current year's assigned and unassigned fund balances exceed 75 days of operational expenditures? (If the school district fails indicator 6, the maximum points and highest rating that the school district may receive is 89 points, B = Above Standard Achievement.)**

This indicator measures the percentage change in fund balance to see determine if the fund balance is declining at a rapid pace or whether sufficient fund balance remains to operate for at least 75 days.

McAllen ISD's average percentage change in fund balance of 0.0575 was less than the 25 percent decrease threshold. The fund balance exceeded the 75 days of operational expenditures meeting the ceiling indicator.

- 7. 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.

McAllen ISD's number of days of cash on hand was 123.2293, which was sufficient to cover its operating expenditures.

- 8. 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.

McAllen ISD's current assets to current liabilities ratio of 3.8051 exceeded the target amount of 3.00 to cover its short-term debt.

- 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 asks, "Did the district spend more than they earned?"

McAllen ISD's expenditures did not exceed general fund revenues.

- 10. This indicator is currently not being scored due to the impact of the COVID-19 and ESSER funding on school district revenue.**

- 11. 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.)**

This indicator asks, "Were you below the cap for this ratio?"

McAllen ISD's long-term liabilities to total assets ratio of 26.643% was sufficient to support long-term solvency.

- 12. Was the debt per \$100 of assessed property value ratio sufficient to support future debt repayments?**

This indicator asks about the school district's ability to make debt principal and interest payments.

McAllen ISD's debt per \$100 of assessed property value ratio of 1.2408 was sufficient to support future debt repayments.



- 13. Was the school district's administrative cost ratio equal to or less than the threshold ratio?** This indicator measures the percentage of the budget that the school district spent on administration. McAllen ISD's cost ratio of 7.39% was less than the threshold ratio of 8.55%.
- 14. 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.** McAllen ISD had a 7.53% decline in the students to staff ratio which is less than the 15% threshold.
- 15. This indicator is currently not being scored due to the impact of the COVID-19 Pandemic on school district attendance.**
- 16. 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 the District's 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% or more the district "fails" this measure. McAllen ISD had a 0% variance in data reported to PEIMS as compared to the Comprehensive Annual Financial Report meeting the ceiling indicator.
- 17. 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.) (If the school district fails indicator 17, the maximum points and highest rating that the school district may receive is 79 points, C = Meets Standard Achievement.)** No material weakness in internal controls were reported in the June 30, 2021, Annual Financial Report meeting the ceiling indicator.
- 18. 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.)** No material non-compliance item was reported in the Annual Audited Financial Report.
- 19. Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year end?** McAllen ISD posted the required financial information on its website.
- 20. Did the school board members discuss the district's property values at a board meeting within 120 days before the district adopted its budget? (If the school district fails indicator 20 the maximum points and highest rating that the school district may receive is 89 points, B = Above Standard Achievement.)** McAllen ISD held a board meeting May 13, 2020, to discuss and consider the impact of changes in the property values on the finances on the district meeting the ceiling indicator.

**MCALLEN INDEPENDENT SCHOOL DISTRICT**  
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