

## Annual Financial Accountability Management Report

### Fiscal Year 2014-2015

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

For the 2014-2015 fiscal year, the McAllen Independent School District received a rating of "A" for "Superior Achievement" under Texas' School FIRST financial accountability rating system. The "Superior Achievement" rating is the state's highest, demonstrating the quality of McAllen Independent School District's financial management and reporting system.

This is the 14th 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. Major changes in the Commissioner's Rule for School FIRST that were finalized in August 2015 were clarified in August 2016. The major changes in the Commissioner's Rule in August 2015 were authorized by House Bill 5, Section 49, 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 Achievement*," followed by "B" for "*Above-Standard Achievement*," "C" for "*Standard Achievement*" 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).

The worksheet is used to rate the District according to 15 indicators, based upon its relative performance, except for the **first five critical indicators**. **A negative response to any of the first five critical indicators results in the district receiving a rating of "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 2015
3. Outside Compensation and/or Fees Received by the Superintendent for Professional Consulting and/or Other Personal Services in Fiscal Year 2015
4. Gifts Received by the Executive Officer(s) and Board Members (and First Degree Relatives, if any) in Fiscal Year 2015
5. Business Transactions between School District and Board Members for Fiscal Year 2015

McAllen Independent School District achieved the "Passed" rating under School FIRST for the 2013-2014 fiscal year which was the state's highest rating for its financial accountability. This report briefly describes data used to calculate the rating and the significance of each indicator. Other information affecting the district's financial accountability is also included.



**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**

**2014-2015 WITH 2013-2014 COMPARISON  
DISTRICT STATUS DETAIL**

**2014-2015**  
**Name: MCALLEN ISD (108906)**  
**Rating: A = Superior**  
**Indicators Answered YES: 5**  
**Indicators Answered NO: 0**  
**Points Earned: 100 of 100**

**2013-2014**  
**Name: MCALLEN ISD (108906)**  
**Rating: "P" Passed**  
**Indicators Answered YES: 4**  
**Indicators Answered NO: 0**  
**Points Earned: 30 of 30**

#	Indicator Description	2014-2015	2013-2014
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	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 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	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 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.)	Yes	Yes
4	Was the Total Unrestricted Net Asset Balance (Net of Accretion of Interest for Capital Appreciation Bonds) in the Governmental Activities column in the Statement of Net Assets greater than zero? (If the school district's change of students in membership over 5 years was 10% or more, then the school district passes this indicator.)		Yes
5	Was the Total Unrestricted Net Asset Balance (Net of Accretion of Interest for Capital Appreciation Bonds) in the Governmental Activities column in the Statement of Net Assets greater than zero? (If the school district's change of students in membership over 5 years was 10% or more, then the school district passes this indicator.)	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 administrative cost ratio less than the threshold ratio?		10
11	Was The administrative cost ratio equal to less than the threshold ratio?	10	

#	Indicator Description	2014-2015	2013-2014
6	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
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	
6	Was the number of days of cash on hand and current investments in the General Fund for the school district sufficient to cover operating expenditures (excluding facilities acquisition and construction)?	10	
7	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.)		10
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	
7	Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt?	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 10 percent or more, then the school district passes this indicator).	10	
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?	10	
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	
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 for local, state, or federal funds? (The AICPA defines material noncompliance.)	10	
15	Did school district not receive an adjustment repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) Funds as result of a financial hardship?	10	

**DETERMINATION OF RATING 2014-2015**

**A.** Did the district answer 'No' to indicators 1, 3, 4, 5 OR 2.A? If so, the district's rating is **F for Substandard Achievement**.

**B.** Determine the rating by the applicable number of points. (Indicators 6-15)

<b>Superior Achievement</b>	70-100
<b>Above Standard Achievement</b>	50-69
<b>Standard Achievement</b>	31-49
<b>Substandard Achievement</b>	< 31

**DETERMINATION OF RATING 2013-2014**

**A.** Did the District Answer 'No' To Indicators 1, 2, 3 OR 4? If So, The District's Rating Is **Substandard Achievement**.

**B.** Determine Rating by Applicable Range for Summation of Indicator Scores (Indicators 5-7)

<b>Pass</b>	16-30
<b>Substandard Achievement</b>	< 16

*A “Negative Response” to any of the first Five indicators result in the district receiving a rating of “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 on November 19, 2015.

- 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 both indicators 2.A and 2.B.**

- 2A. 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.)**

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, 2015, was unmodified, a clean audit.

- 2B. Did the external Independent Auditor report that the AFR was free of any instance(s) of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds? (The AICPA defines material weakness.)**

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

No material weakness in internal controls were reported in the 2014-2015 Annual Financial Report.

- 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?**

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.

- 5. Was the Total Unrestricted Net Asset Balance (Net of accretion of interest for capital appreciation bonds) in the governmental activities column in the statement of net assets greater than zero? (If the school district's change of students in membership over 5 years was 10% or more, then the school district passes this indicator.)**

This indicator asks, "Did the district's total assets exceed the total amount of liability?" This indicator recognizes that high-growth districts incur large amounts of debt to fund construction, and total debt may exceed the total amount of assets under certain scenarios.

McAllen ISD's Unrestricted Net Asset Balance was \$54,333,232 at June 30, 2015.

- 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.

McAllen ISD's number of days of cash on hand was 117.5936 which was sufficient enough to cover its operating expenditures.

- 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.

McAllen ISD's current assets to current liabilities ratio of 3.6895 exceeded the target amount of 3.00 to cover its short-term debt.

- 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 10 percent or more, then the school district passes this indicator).**

McAllen ISD's long-term liabilities to total assets ratio of 31.43% was sufficient to support long-term solvency.

- 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. 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.

McAllen ISD's debt service coverage ratio of 5.1145 exceeded the required debt service ratio of 1.20.

- 11. Was the administrative cost ratio equal to less than the threshold ratio?**

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

McAllen ISD's cost ratio of 6.29% was less than the threshold ratio of 8.55%.

- 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.)**

McAllen ISD had a 4.77% decline in student enrollment which is less than the 15% threshold.

- 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 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.

- 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 for local, state, or federal funds? (The AICPA defines material noncompliance.)**

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.

No material weakness in internal controls were reported in the Annual Financial Report.

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

This indicator asks, "Did the district have to ask for an easy payments plan to return monies to TEA after spending the overpayment from the Foundation School Program state aid?"

McAllen ISD did not have an adjustment repayment schedule.

**McALLEN INDEPENDENT SCHOOL DISTRICT**

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