



ANNUAL FINANCIAL ACCOUNTABILITY MANAGEMENT REPORT

Fiscal Year 2013-2014

November 16, 2015

For the 2013-2014 fiscal year, the McAllen Independent School District received a rating of “P” for “Passed” under Texas’ School FIRST financial accountability rating system. The “Passed” rating is the state’s highest, demonstrating the quality of McAllen Independent School District’s financial management and reporting system.

This is the 13th year of School FIRST (Financial Integrity Rating System of Texas). Senate Bill 218 which was passed during the 77th Legislature, Regular Session, 2001, authorized the implementation of a financial accountability rating system, which is officially referred to as 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 House Bill 5, 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.

The Texas Education Agency converted School FIRST to a two-tier rating system of either “P” for “Passed” or “F” for “Substandard Achievement” for the 2014-2015 rating year. Prior to the 2014-2015 rating year, the School First accountability rating system assigned one of four financial accountability ratings to Texas school districts with the highest being “Superior Achievement,” followed by “Above-Standard Achievement,” “Standard Achievement” and “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 seven indicators, based upon its relative performance, except for the **first four critical indicators**. **A negative response to any of the first four 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 2014
3. Outside Compensation and/or Fees Received by the Superintendent for Professional Consulting and/or Other Personal Services in Fiscal Year 2014
4. Gifts Received by the Executive Officer(s) and Board Members (and First Degree Relatives, if any) in Fiscal Year 2014
5. Business Transactions between School District and Board Members for Fiscal Year 2014

McAllen Independent School District achieved the “Superior Achievement” rating under School FIRST for the 2012-2013 fiscal year. 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

**2013-2014 WITH 2012-2013 COMPARISON
DISTRICT STATUS DETAIL**

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

2012-2013
Name: MCALLEN ISD (108906)
Rating: Superior Achievement
Indicators Answered YES: 6
Indicators Answered NO: 0
Points Earned: 70 of 70

#	Indicator Description	2013-2014	2012-2013
1	Was the total Fund Balance less Nonspendable and Restricted Fund Balance greater than zero in the General Fund?		Yes
2	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 district's 5 year % change in students was 10% or more)		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	
3	Were there no disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?		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	
4	Was the Annual Financial Report filed within one month after November 27th or January 28th deadline depending upon the district's fiscal year end date (June 30th or August 31st)?		Yes
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	
5	Was There an unqualified opinion in Annual Financial Report?		Yes
2	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	

#	Indicator Description	2013-2014	2012-2013
6	Did the Annual Financial Report not disclose any instance(s) of material weaknesses In internal controls?		Yes
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	
7	Was the three year average percent of total tax collections (including delinquent) greater than 98%?		5
8	Did the comparison of PEIMS data to like information in Annual Financial Report result in an aggregate variance of less than 3 Percent of expenditures per fund type (data quality measure)?		5
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	
9	Were debt related expenditures (net of IFA and/or EDA Allotment) < \$350.00 per student? (If The district's five-year percent change in students = or > 7%, or if property taxes collected per penny of tax effort > \$200,000 per student)		5
10	Was there no disclosure in the Annual Audit Report of material noncompliance?		5
11	Did the district have full accreditation status in relation to financial management practices? (e.g. no conservator or monitor assigned)		5
12	Was The Aggregate Of Budgeted Expenditures And Other Uses Less Than The Aggregate Of Total Revenues, Other Resources and Fund Balance In General Fund?		5
13	If the district's aggregate fund balance in the general fund and capital projects fund was less than zero, were construction projects adequately financed? (To avoid creating or adding to the fund balance deficit situation)		5
14	Was the ratio of cash and investments to deferred revenues (excluding amount equal to net delinquent taxes receivable) in the general fund greater than or equal to 1:1? (If deferred revenues are less than net delinquent taxes receivable)		5
15	Was The administrative cost ratio less than the threshold ratio?		5
5	Was the school district's administrative cost ratio equal to or less than the threshold ratio? (see ranges below)	10	
16	Was the ratio of students to teachers within the ranges shown below according to district size?		5
17	Was the ratio of students to Total staff within the ranges shown below according to district size?		5

#	Indicator Description	2013-2014	2012-2013
18	Was the decrease in undesignated unreserved fund balance < 20% over two fiscal years? (If total revenues > operating expenditures in the General Fund, then district receives 5 points)		5
19	Was the aggregate total of cash and investments in the General Fund more Than \$0?		5
20	Were investment earnings in All Funds (excluding Debt Service Fund and Capital Projects Fund) meet or exceed the 3-month Treasury Bill Rate?		5

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)

Pass	16-30
Substandard Achievement	< 16

DETERMINATION OF RATING 2012-2013

- A. Did the District Answer 'No' To Indicators 1, 2, 3 OR 4? **OR** Did the District Answer 'No' To Both 5 and 6? If So, The District's Rating Is **Substandard Achievement**.
- B. Determine Rating by Applicable Range for Summation of Indicator Scores (Indicators 7-20)

Superior Achievement	64-70
Above Standard Achievement	58-63
Standard Achievement	52-57
Substandard Achievement	< 52

INDICATOR 16 & 17 RATIOS

Indicator 16		Ranges for Ratios		Indicator 17		Ranges for Ratios	
District Size - Number of Students Between		Low	High	District Size - Number of Students Between		Low	High
< 500		7	22	< 500		5	14
500-999		10	22	500-999		5.8	14
1000-4999		11.5	22	1000-4999		6.3	14
5000-9999		13	22	5000-9999		6.8	14
=> 10000		13.5	22	=> 10000		7.0	14

A “Negative Response” to any of the first Four indicators results 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, 2014.

2. **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, 2014, was unmodified, a clean audit.

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.)**

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. **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 percent 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 \$78,350,164 at June 30, 2014.

5. **Was the school district’s administrative cost ratio equal to or less than the threshold ratio?**

TEA and state law set a cap on the percentage of the budget that Texas School districts can spend on administration based on district size. For districts in McAllen ISD’s category, the administrative cost ratio should fall below 8.55%.

McAllen ISD’s ratio for the 2013-2014 was 6.44%. In 2012-2013 this ratio was 6.19%.

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?**

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 function type is 3% or more the district “fails” this measure.

McAllen ISD’s data quality measure was 0 percent.

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.)

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 2013-2014 Annual Financial Report.

McALLEN INDEPENDENT SCHOOL DISTRICT

www.mcallenisd.org

Business Services Department
2000 N. 23rd Street
McAllen, TX 78501

Voice: 956-618-6016
Fax: 956-618-7377
www.mcallenisd.org



For additional information, please contact:

Cynthia Medrano-Richards, RTSBA, CPA
Chief Financial Officer
Voice: 956-618-6016
Email: cindy.richards@mcallenisd.net