

# ANNUAL FINANCIAL ACCOUNTABILITY MANAGEMENT REPORT



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

The McAllen Independent School District has received a rating of "Superior Achievement" for the seventh time under Texas' school finance accountability rating system.

This is the seventh year of Schools FIRST (Financial Integrity Rating System of Texas). Senate Bill 218 of the 77<sup>th</sup> Legislature (2001) authorized the implementation of a financial accountability rating system, which is officially referred to as Schools FIRST. Schools FIRST was developed in consultation with the Comptroller of Public Accounts, and its development also benefited from the many comments that were received from school district and regional education service center personnel. The school district's Schools FIRST rating is based upon an analysis of staff and student data reported for the 2007-2008 school year, and budgetary and actual financial data for the August 31, 2008 fiscal year.

The Schools FIRST accountability rating system assigns 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". Districts with serious data quality problems may receive the additional rating of "Suspended – Data Quality". Districts that receive the "Substandard Achievement" or "Suspended – Data Quality" ratings under Schools FIRST must file a corrective action plan with the Texas Education Agency.

This Annual Financial Accountability Management Report covers many business-related issues; however, it focuses on the Schools 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 twenty-four indicators, based upon its relative performance, except for the **first six critical indicators**. **A negative response to any of the first four indicators or a negative response to both the fifth and sixth critical indicators results in the district receiving a rating of "Substandard Achievement"**.

As of 2007, new reporting requirements are effective for the financial management report that is distributed at the Schools FIRST public hearing. Per 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 Schools FIRST financial management report:

1. Superintendent's current Employment Contract
2. Reimbursements Received by the Superintendent and Board Members for Fiscal Year 2008
3. Outside Compensation and/or Fees Received by the Superintendent for Professional Consulting and/or Other Personal Services in Fiscal Year 2008
4. Gifts Received by the Executive Officer(s) and Board Members (and First Degree Relatives, if any) in Fiscal Year 2008
5. Business Transactions Between School District and Board Members for Fiscal Year 2008

McAllen ISD's rating under Schools FIRST for the year ended August 31, 2008, is "Superior Achievement". 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.



## **Purpose of the Financial Accountability Rating System**

The Financial Accountability Rating System 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.

This rating system was designed to encourage Texas public schools to manage their financial resources better in order to provide the maximum allocation for direct instructional purposes.



**Financial Integrity Rating System of Texas  
2007-2008 WITH 2006-2007 COMPARISON  
DISTRICT STATUS DETAIL**

**2007-2008**  
**Name: MCALLEN ISD(108906)**  
**Rating: Superior Achievement**  
**Indicators Answered YES: 6**  
**Indicators Answered NO: 0**  
**Points Earned: 85**

**2006-2007**  
**Name: MCALLEN ISD(108906)**  
**Rating: Superior Achievement**  
**Indicators Answered YES: 6**  
**Indicators Answered NO: 0**  
**Points Earned: 85**

#	Indicator Description	2007-2008	2006-2007
1	Was The Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund?	Yes	Yes
2	Was The Total Unrestricted Net Asset Balance (Net of Accretion of Interest on 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% More)	Yes	Yes
3	Were There No Disclosures In The Annual Financial Report And/Or Other Sources Of Information Concerning Default On Bonded Indebtedness Obligations?	Yes	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	Yes
5	Was There An Unqualified Opinion in Annual Financial Report?	Yes	Yes
6	Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?	Yes	Yes
7	Did The District's Academic Rating Exceed Academically Unacceptable?	5	5
8	Was The Three Year Average Percent Of Total Tax Collections (Including Delinquent) Greater Than 98%?	5	5
9	Did The Comparisons 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	5
10	Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) < \$250.00 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)	5	5
11	Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?	5	5
12	Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g. No Conservator Or Monitor Assigned)	5	5

#	Indicator Description	2007-2008	2006-2007
13	Was The Percent Of Operating Expenditures Expended For Instruction More Than 65%? (Functions 11, 36, 93, 95) (Phased in over three years, 55% for 2006-2007; 60% for 2007-2008; and 65% for 2008-2009)	3	3
14	Was The Percent Of Operating Expenditures Expended For Instruction More Than Or Equal To 65%? (Functions 11, 12, 31, 33, 36, 93, 95)	3	3
15	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	5
16	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	5
17	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	5
18	Was The Administrative Cost Ratio Less Than The Threshold Ratio?	5	5
19	Was The Ratio Of Students To Teachers Within The Ranges Shown Below According To District Size?	5	5
20	Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size?	5	5
21	Was The Total Fund Balance In The General Fund More Than 50% And Less Than 150% Of Optimum According To The Fund Balance And Cash Flow Calculation Worksheet In The Annual Financial Report?	5	5
22	Was The Decrease In Undesignated Unreserved Fund Balance < 20% Over Two Fiscal Years? (If 1.5 Times Optimum Fund Balance < Total Fund Balance In General Fund Or If Total Revenues > Operating Expenditures In The General Fund, Then District Receives 5 Points)	5	5
23	Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?	5	5
24	Were Investment Earnings In All Funds (Excluding Debt Service Fund And Capital Projects Fund) More Than \$20 Per Student?	4	4

#### DETERMINATION OF RATING

- 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 7-24):
- |                                   |                                       |
|-----------------------------------|---------------------------------------|
| <b>Superior Achievement</b>       | 75-85 and Yes to Indicator 7          |
| <b>Above Standard Achievement</b> | 65-74 or > = 75 and No to Indicator 7 |
| <b>Standard Achievement</b>       | 55-64                                 |
| <b>Substandard Achievement</b>    | < 55 or No to one default Indicator   |

**INDICATOR 19 & 20 RATIOS**

**Indicator 19**

Ranges for Ratios

District Size - Number of Students Between	Low	High
< 500	7	22
500-999	10	22
1000-4999	11.5	22
5000-9999	13	22
=> 10000	13.5	22

**Indicator 20**

Ranges for Ratios

District Size - Number of Students Between	Low	High
< 500	5	14
500-999	5.8	14
1000-4999	6.3	14
5000-9999	6.8	14
=> 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 Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund?**

School districts must legally have a fund balance to ensure adequate funding for operations. This indicator is designed to ensure that your district has a positive amount of fund balance cash (savings) that is not designated or “reserved” for a specific purpose. In other words, “Does our district have funds set aside for a rainy day?”

McAllen ISD’s fund balance in the General Fund after reduction for reserves at August 31, 2008, was \$16,277,240. The previous year was \$17,397,721.

**2. Was The Total Unrestricted Net Asset Balance (Net of Accretion of Interest on Capital Appreciation Bonds) In The Governmental Activities Column In The Statement Of Net Assets Grater Than Zero? (If The District’s 5 Year % Change In Students Was 10% Increase or More then Answer is Yes)**

*This indicator simply asks “Did the district’s total assets exceed the total amount of liabilities?” Fortunately 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 \$16,508,286 at August 31, 2008.*

**3. Were There No Disclosures In The Annual Financial Report And/Or Other Sources Of Information Concerning Default On Bonded Indebtedness Obligations?**

This indicator seeks to make certain that the District has paid its bills/obligations on bonds issued to pay school construction.

McAllen ISD met bonded indebtedness obligations.

**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)?**

The District’s Annual Financial Report was filed with the Texas Education on February 2, 2009.

**5. Was There An Unqualified Opinion in The Annual Financial Report?**

The opinion expressed by our independent auditors on the August 31, 2008, Annual Financial Report was unqualified, a clean opinion. A “qualification” on our financial report would have meant that corrections were needed in some of our reporting or financial controls. A district’s goal, therefore, is to receive an “unqualified opinion” on its Annual Financial Report.

**6. Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?**

No material weaknesses in internal controls were reported in the 2007-2008 Annual Financial Report.

Internal control weaknesses create a risk that a district may not be able to properly account for its use of public funds, and should be addressed immediately. An independent audit is required to state if a district had material weaknesses.

**7. Did The District’s Academic Rating Exceed Academically Unacceptable?**

*This indicator seeks to ascertain whether the district’s accreditation is in good standing.*

*McAllen ISD’s accountability rating was Academically Acceptable for the 2007-2008 district performance.*

**8. Was The Three Year Average Percent Of Total Tax Collections (Including Delinquent) Greater Than 98%?**

This indicator measures the District’s success in collecting the taxes owed by the community’s businesses and homeowners, placing a 98% minimum collections standard. The district must collect 98% or more of taxes, including any delinquent taxes owed from past years.

McAllen ISD’s percentage of tax collections for 2007-2008 was 101.87% and for 2006-2007 was 100.82%.

*A “Negative Response” to both the fifth & sixth critical indicators results in the district receiving a rating of “Substandard Achievement”*

**9. Did The Comparisons 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)?**

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

McAllen ISD’s data quality measure was 0 percent.

**10. Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) < \$250.00 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)**

This indicator shows the Legislature’s intent for school districts to spend money on education, rather than fancy buildings, by limiting the amount of money districts can spend on debt to \$250 per student. However, the Legislature did allow for fast-growth school districts to exceed this cap.

McAllen ISD’s debt-related expenditures for the 2007-2008 school year were \$266.48 per student, meeting the criteria. Debt-related expenditures for the school year 2006-2007 were \$223.55.

**11. Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?**

This indicator addresses a district’s failure to comply with laws, rules and regulations for a government entity.

McAllen ISD had no disclosures of material noncompliance.

**12. Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g. No Conservator Or Monitor Assigned)**

Did TEA take over control of the district due to financial issues such as fraud or having a negative fund balance?

McAllen ISD had full accreditation status.

**13. Was The Percent Of Operating Expenditures Expended For Instruction More Than 65%? (Functions 11, 36, 93, 95) (Phased in over three years, 55% for 2006-2007; 60% for 2007-2008; and 65% for 2008-2009)**

This indicator reflects a district’s ability to focus the majority of its funding for student instruction. Only items such as salaries of classroom teachers and classroom supplies; extracurricular activities; payments to cooperatives; and payments to juvenile justice alternative education programs qualify as “Instruction” expenditures in this calculation (Function 11, 36, 93, 95).

For the year ended August 31, 2008, McAllen ISD’s percentage of operating expenditures for instruction was 60.61%. In 2006-2007, the percentage was 59.69%.

**14. Was The Percent Of Operating Expenditures Expended For Instruction More Than Or Equal To 65%? (Functions 11, 12, 31, 33, 36, 93, 95)**

*This indicator provides another perspective to the district by factoring in funding from other functional areas which directly impact student instruction. Only items such as salaries of classroom teachers and classroom supplies; libraries and media services; guidance, counseling, and evaluation; medical services; extracurricular activities; payments to cooperatives; and payments to juvenile justice alternative education programs qualify as “Instruction” expenditures in this calculation (Function 11, 12, 31, 33, 36, 93, 95).*

*For the year ended August 31, 2008, McAllen ISD’s percentage of operating expenditures for instruction was 68.70%.*

**15. Was The Aggregate Of Budgeted Expenditures And Other Uses Less Than The Aggregate Of Total Revenues, Other Resources and Fund Balance In General Fund?**

A district will receive a negative rating on this measure if its total expenditures and other uses for the fiscal year exceeded its total funds available. A negative rating would indicate that the District had overspent its budget.

McAllen ISD's total revenues, other resources and fund balance exceeded expenditures and other uses by \$19,282,573 in the General Fund for the year ended August 31, 2008. In 2006-2007 this amount was \$16,516,189.

**16. 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)**

This indicator measures the district's ability to construct facilities without damaging the Fund Balance. At August 31, 2008 the fund balance in the General Fund was \$18,505,525, and the Capital Projects Fund had a balance of \$13,677,082, for an aggregate amount of \$32,182,607, indicating that construction projects were adequately financed. In 2006-2007 the fund balance in the General Fund was \$20,559,431, and the Capital Projects Fund had a balance of \$43,267,894, for an aggregate amount of \$63,827,325.

**17. Was The Ratio Of Cash And Investments To Deferred Revenues (Excluding Amount Equal To Net Delinquent Taxes Receivables) In The General Fund Greater Than Or Equal To 1:1? (If Deferred Revenues Are Less Than Net Delinquent Taxes Receivable)**

This indicator measures whether the district has sufficient cash and investments at least to offset TEA overpayments (deferred revenues). In other words, the district should have fund balance monies of its own that are at least equal to those dollars that are there due to overpayments from TEA, and should not be spending "next year's" monies this year.

For year ended August 31, 2008, cash and investments in the General Fund were \$6,739,384 and the District had no deferred TEA overpayments. In 2006-2007 the cash and investment amount was \$14,141,359.

**18. Was The Administrative Cost Ratio 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 11.05%. The District's ratio for the 2007-2008 was 7.15%, well below the cap. In 2006-2007 this ratio was 7.99%.

**19. Was The Ratio Of Students To Teachers Within the Ranges Shown Below According To District Size?**

This indicator measures our pupil-teacher ratio to ensure that it is within TEA-recommended ranges for districts of our student population range. A district like McAllen ISD with a population greater than 10,000 should have no more than 22 students per teacher and no fewer than 13.5 students per teacher. For the 2007-2008 school year McAllen ISD had 14.28 students per teacher. In 2006-2007 this ratio was 14.24.

**20. Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size?**

This indicator measures our pupil-staff ratio to ensure that it is within TEA-recommended ranges for districts of our student population range. A district like McAllen ISD with a population greater than 10,000 students should have no more than 14 students per staff member and no fewer than 7 students per staff member. For the 2007-2008 school year McAllen ISD had 7.12 students per staff member. In 2006-2007 this ratio was 7.11.

**21. Was The Total Fund Balance In The General Fund More Than 50% And Less Than 150% Of Optimum According To The Fund Balance And Cash Flow Calculation Worksheet In The Annual Financial Report?**

The optimum fund balance for the district was \$18,837,098. The District should have no less than one-half and no more than one and one-half times the optimum amount in Fund Balance, counting both reserves and unreserved fund balances. At August 31, 2008, the District's Fund Balance was \$18,505,525 or 98.24% of the calculated optimum fund balance. In 2006-2007 the optimum fund balance was \$19,388,300; District's Fund Balance was \$20,559,431 or 106% of the calculated optimum fund balance.



**22. Was The Decrease In Undesignated Unreserved Fund Balance < 20% Over Two Fiscal Years?(If 1.5 Times Optimum Fund Balance < Total Fund Balance In General Fund Or If Total Revenues > Operating Expenditures In The General Fund, Then District Receives 5 Points)**

This indicator notes rapid decreases in a district's undesignated Fund Balance (those dollars not designated as "land fund" or "construction fund") or emergency fund. This is an early warning that a district is borrowing to pay for recurring costs that will continue to deplete the district's reserves.

McAllen ISD's 2007-2008 undesignated fund balance decreased by \$1,586,482 or 9.4% decrease. In 2006-2007 the undesignated fund balance decreased by \$1,656,055.

**23. Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?**

This indicator simply verifies that the District has cash in the bank and/or investments. At August 31, 2008, the General Fund cash and investments were \$6,739,384 and \$14,141,359 at August 31, 2007.

**24. Were Investment Earnings In All Funds (Excluding Debt Service Fund and Capital Projects Fund) More Than \$20 Per Student?**

This indicator measures if the district is investing its funds wisely.

For the school year ended August 31, 2008 McAllen ISD's investment earnings per student were \$50.86 and \$75.23 for August 31, 2007.

# McALLEN INDEPENDENT SCHOOL DISTRICT

[www.mcallenisd.org](http://www.mcallenisd.org)

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