

Richardson ISD



Schools Financial Integrity Rating
System of Texas

Public Hearing

October 13, 2008

What is the School Financial Integrity Rating System of Texas (FIRST)?

FIRST is a financial accountability system for Texas school districts developed by the Texas Education Agency in response to Senate Bill 875 of the 76th Legislature in 1999. The primary goal of 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.

Revised ratings became effective in June 2008 for the 2006-2007 financial data.

How does FIRST work?

The FIRST rating shows that schools are accountable not only for student learning, but also for achieving these results cost-effectively and efficiently.

The FIRST rating system assigns one of four financial accountability ratings to Texas school districts based on 24 indicators -

- 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.”

What determines a district's rating?

Ratings are determined based upon 24 indicators, the aggregate number of points earned and answers to critical indicators. Most indicators are based on a 5 point scale with a 20% allowance for variance or calculated value. Some indicators remain on a Pass/Fail scale.

<u>District Rating</u>	<u>Sum of indicator scores</u>
Superior Achievement	75-85 and Yes to indicator 7
Above-Standard Achievement	65-74, or, ≥ 75 and No to indicator 7
Standard Achievement	55-64
Substandard Achievement	< 55, or, No to one default indicator*

*If the District answered 'No' to indicators 1, 2, 3 or 4 or if the District answered 'No' to both indicators 5 and 6 then the District automatically receives a "Substandard Achievement" rating.

What are the indicators and what do they mean in layman's terms?

1. Was 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 your district have funds set aside for a rainy day?"

RISD's answer to this indicator was Yes and our amount was \$75,178,186.

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?

This indicator simply asks, “Did the District’s total assets exceed the total amount of liabilities?”

RISD’s answer to this question was Yes, the Unrestricted Net Asset Balance was \$98,362,023.

3. Were there NO disclosures in the Annual Report and/or other sources of information concerning default on bonded indebtedness obligations?

This indicator seeks to make certain that your district has paid your bills/obligations on bonds issued to pay for school construction, etc.

RISD's answer to this question was Yes.

4. Was the Annual Financial Report filed within one month after the November 27 or January 28 deadline depending upon the district's Fiscal Year end date (June 30 or August 31)?

A simple indicator. Was your Annual Financial Report filed by the deadline?

RISD's answer to this question was Yes.

5. Was there an Unqualified Opinion in the Annual Financial Report?

A “qualification” on your financial report means that you need to correct some of your reporting or financial controls. A district’s goal, therefore, is to receive an unqualified opinion” on its Annual Financial Report. This is a simple “Yes” or “No” indicator.

RISD’s answer to this question was Yes.

6. Did the Annual Financial Report NOT disclose any instance(s) of material weakness in internal controls?

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

RISD's answer to this question was Yes.

7. Did the Districts academic rating exceed Academically Unacceptable?

This is a new indicator and is considered a critical indicator. The purpose of this indicator is to tie the Districts fiscal efficiencies to academic performance. It simply asks whether the District's accreditation status is in good standing.

RISD's answer to this question was Yes = 5 points.

8. Was the three-year average percent of total tax collections (including delinquent) greater than 98 percent?

This indicator measures your district's success in collecting the taxes owed to you by your community's businesses and homeowners, placing a 98 percent minimum collections standard. You must collect an average of 98 percent or more of your taxes for years 2005 thru 2007, **including** any delinquent taxes owed from past years. A district earns up to five points under this indicator based upon its relative performance.

RISD's answer to this questions was Yes = 5 points.

The three-year average for total tax collections for fiscal years 2005 thru 2007 was 100.55 % including collections for prior years delinquencies.

9. Did the comparison of PEIMS data to like information in the 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 (Public Education Information Management System) 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 more than 3 percent, your district “fails” this measure.

RISD's answer to this question was Yes = 5 points. Our variance was .0003%

10. Were Debt-Related Expenditures (net of Instructional Facilities Allotment (IFA) and/or Existing Debt Allotment (EDA)) less than \$250 per student? (If the district's five-year percent change in students was 7 percent or more, or if property taxes collected per penny of tax effort were more than \$200,000 per student, then the district receives 5 points.)

This indicator shows the Legislature's intent for school districts to spend money on education, rather than buildings, by limiting the amount of money district's can spend on debt to \$250 per student. The Legislature did make allowances for fast growth and property wealthy districts.

*RISD's answer to this question was **Yes = 5 points**. Our debt related expenditures were \$1,551 per student, but a penny of tax effort generates approximately \$1.6 million. The IFA and EDA are designed to provide State funding for facilities and debt to property poor districts.*

Eliminating these funds makes it appear that many districts are spending less on facilities and debt. You must also consider age of facilities, repayment timeline, etc. when trying to compare debt levels.

11. Was there NO disclosure in the Annual Audit Report of Material Noncompliance?

This means no disclosure indicating the school district failed to comply with laws, rules and regulations for a government entity.

RISD's answer to this question was Yes = 5 points.

12. Did the district have full accreditation status in relation to financial management practices? (e.g. no conservator or monitor assigned)

Did the Texas Education Agency take over control of your district due to financial issues such as fraud or having a negative fund balance? If not, you pass this indicator.

RISD's answer to this question was Yes = 5 points.

13. Was the percentage of Operating Expenditures expended for Instruction more than 65 percent? (Functions 11, 36, 93, 95) (Phased in over three years, 55% for 2006-07; 60% for 2007-08; and 65% for 2008-09).

This indicator shows your district's ability to focus the majority of its funding directly on student instruction. Student instructional costs in the calculation use the reporting format followed by the National Center for Educational Statistics, which only include function codes: 11-instruction; 36-extracurricular activities; 93-payments to cooperatives; and 95-payments to juvenile justice alternative education programs.

3 points can be earned based upon relative performance. The district may post its check register and aggregate payroll amount if performance prevents attaining the 3 points.

RISD's answer to this question was Yes = 3 points. According to the State calculation, our percent spent on Instruction in 2006-2007 was 64.92%. This does not include expenses for librarians, counselors, principals, etc. who all also provide instruction to students.

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 on the district's ability to focus the majority of its funding so that it directly pays for student instruction. Student instructional costs include expenditure categories in the reporting format followed by the National Center for Educational Statistics **plus** costs reported under function codes: 12-libraries and media services; 31-guidance, counseling and evaluation services; and 33-medical services.

A district earns up to 3 points based upon its relative performance.

RISD's answer to this question was Yes = 3 points. According to the State calculation for this indicator, our percent spent on Instruction was 71.72%.

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?

Did you live within your means? The District will receive a negative rating on this measure if your total expenditures and other uses for the fiscal year exceeded your total funds available.

RISD's answer to this question was Yes = 5 points.

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? (Were construction projects adequately financed or adjusted by change orders or other legal means to avoid creating or adding to the fund balance deficit situation?)

Did you over-spend on school buildings or other capital projects?
This indicator measures your district's ability to construct facilities without damaging your Fund Balance.

RISD passed this indicator since our Fund Balance was greater than zero = 5 points.

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 Delinquent Taxes Receivable, then answer this indicator YES.)

This indicator measures whether or not your district has sufficient cash and investments to balance Fund Balance monies such as TEA overpayments (deferred revenues). In other words, your 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 you should not be spending “next year’s” monies this year.

RISD’s answer to this question was Yes = 5 points. A district earns up to 5 points based upon its relative performance.

18. Was the Administrative Cost Ratio less than the threshold ratio standard in State Law?

TEA and state law sets a cap on the percentage of their budget that Texas school districts can spend on administration. Were your administrative expenses at or below the cap for districts of your size?

RISD's answer to this question was Yes = 5 points. RISD's administrative cost ratio was 6.79% and the State prescribed standard is 11.05%.

19. Was the ratio of Students to Teachers within the ranges shown below according to district size?

District size - number of students between	Ranges for ratios	
	<u>Low</u>	<u>High</u>
<500	7	22
500-999	10	22
1,000-4,999	11.5	22
5,000-9,999	13	22
>10,000	13.5	22

This indicator measures your student-teacher ratio to ensure that it is within TEA recommended ranges for district's of your student population range.

RISD's answer to this question was Yes = 5 points. Our student-teacher ratio was 14.843 to 1.

20. Was the ratio of Students to Total Staff within the ranges shown below according to district size?

District size - number of students between	Ranges for ratios	
	<u>Low</u>	<u>High</u>
<500	5	14
500-999	5.8	14
1,000-4,999	6.3	14
5,000-9,999	6.8	14
>10,000	7.0	14

This indicator measures your student-staff ratio to ensure that it is within TEA recommended ranges for district's of your student population range.

RISD's answer to this question was Yes = 5 points. Our student-staff ratio was 7.4225 to 1.

21. Was the Total Fund Balance in the General Fund more than 50 percent and less than 150 percent of Optimum according to the Fund Balance and Cash Flow Calculation Worksheet in the Annual Financial Report?

Exhibit J-3 in your district's audit provides an optimum General Fund "Fund Balance" for your district. Your district should have no less than one-half and more than one and one-half times this amount in your Fund Balance, counting both reserved and unreserved fund balances.

RISD's answer to this question was Yes = 5 points. Our optimum fund balance according to the TEA was \$73,109,594. Therefore, our acceptable fund balance range is between \$36,554,797 and \$109,664,391. Our General Fund fund balance as of June 30, 2007 (the review date) was \$76,875,048.

22. Was the decrease in Undesignated Unreserved Fund Balance less than 20 percent over two Fiscal Years? (If 1.5 times Optimum Fund Balance in General Fund or if Total Revenues exceeded Operating Expenditures in the General Fund, then answer this indicator YES.)

Are you operating within your financial means This indicator notes rapid decreases in your Fund Balance (those dollars not designated as a “land fund” or “construction fund”) or emergency fund.

RISD's answer to this question was Yes = 5 points. Our total revenues exceeded our total expenses in this year.

23. Was the Aggregate Total of Cash and Investments in the General Fund more than \$0?

Does your district have cash in the bank and/or investments?

RISD's answer to this question was Yes = 5 points. Our total cash/investments in the General Fund were \$96,254,776.

24. Were Investment Earnings in all funds (excluding Debt Service and Capital Projects) more than \$20 per student?

Are you using your cash or reserve fund (Fund Balance) monies wisely?

RISD's answer to this question was Yes = 4 points. Our investment earnings in all funds were \$174.80 per student.

Additional reporting requirements for the 2008 calendar year include the following five disclosures:

- Superintendent's employment contract effective the date of the hearing. *(hard copy provided)*
- Reimbursements received by the Superintendent and Board for the fiscal year ending 2007. *(hard copy provided)*
- Outside compensation and/or fees received by the Superintendent for professional consulting and/or other personal services for the fiscal year ending 2007. *None.*
- Gifts received by the Executive Officer(s) and Board (and first degree relatives, if any) for the fiscal year ending 2007. *None.*
- Business transactions between the School District and Board members for the fiscal year ending 2007. *None.*

RISD passed all 24 indicators with a score of 85 out of a possible 85 points and received a rating of **Superior Achievement**.

How did districts rate throughout the State?

Superior Achievement – 931 or 90.30%

Above Standard Achievement – 76 or 7.37%

Standard Achievement – 6 or .58%

Substandard Achievement – 17 or 1.65%

Suspended Due to Data Quality – 1 or .10%

Comments?