

# Financial Accountability

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

- Also referred to as
  - School FIRST

## **Financial Accountability Rating System**

- History
  - Senate Bill 875, 76th Legislative Session
  - TEA Consulted With Comptroller Of Public Accounts
  - TEA Forwarded A Proposal To Legislature December 2000
  - Senate Bill 218 Required Implementation of System
  - Amendment To System Published In Texas Register In 2004
  - Legislative Leadership And Other Stakeholder Provide Feedback To Proposed Amendment
  - Amendment Published In Texas Register Spring 2005
  - Amendment later withdrawn
  - Revisions To School FIRST To Be Official For Ratings Anticipated In June 2008

## **Senate Bill 218**

- “SUBCHAPTER I. FINANCIAL ACCOUNTABILITY Added to Chapter 39, Texas Education Code
- Section 39.201. Definitions
- Section 39.202. Development and Implementation
- Section 39.203. Reporting
- Section 39.204. Rules

## **19 Texas Administrative Code**

- 19 Texas Administrative Code, Chapter 109. Budgeting, Accounting, and Auditing, Subchapter AA. Commissioner's Rules Concerning Financial Accountability Rating System
  - §109.1001. Purpose of Financial Accountability Rating System
  - §109.1002. Financial Accountability Ratings
  - §109.1003. Types of Financial Accountability Ratings
  - §109.1004. Criteria for Financial Accountability Ratings
  - §109.1005. Reporting

## Objectives

- Simple And Understandable
- Applicable To All Districts
- Based On Hard Data
- Allows For Self Administrations
- Zero Burden To Districts
- Provide An Early Warning
- Substantially Within District's Control
- Linkage To Academic Performance (Did The Academic Rating Exceed Academically Unacceptable)
- Transparency

## District Ratings

- New System For Ratings to be Issued June 2008
  - Based Upon 24 Indicators
  - Ratings Function Of Aggregate Number Of Points And Answers To Critical Indicators
  - Five Point Scale For Most Indicators With Calculated Values
    - Five Point Scale Based Upon 20% Variance For Most Indicators With Calculated Values
  - Some Indicators Remain Pass/Fail
  - Failing To Pass One Or More Critical Indicators Will Result In Automatic Failing Grade

## Overview of Basic Indicators

- Critical Indicators (6)
- Fiscal Efficiencies And Academic Performance (6)
- Budgeting (5)
- Personnel (3)
- Cash Management (4)

## Determination of Ratings (85 points)

<b>Ratings</b>	<b>Points</b>
■ Superior	>=75 And Yes Indicator 7
■ Above Standard	>=75 And No Indicator 7 >=65 <75
■ Standard	>=55 <65

- Substandard <55 OR  
Zero Points For One Default Indicator
- Suspended Due to Data Quality

### **Timeline for Public Hearings**

- ~ June – Preliminary ratings released by TEA
- 30 day period for appeals
- ~ August – Final ratings released by TEA
- 60 day period - public hearing
  - Notice about School FIRST hearing
  - Newspaper and electronic media
    - Two notices in newspaper
      - Once a week for two weeks
    - First newspaper notice not more than 30 days before and not less than 14 days prior to hearing
  - Provide copy of School FIRST financial management report to attendees

### **Disclosures in the Financial Management Report**

- Superintendent's contract
- Reimbursements of superintendent and board
- Outside compensation of superintendent in exchange for professional and personal services
- Gifts of \$250 or more to executive officers and board members, and immediate families
- Business transactions between district and board members

### **Sanctions for Failing School FIRST**

- 1st year corrective action
- 2nd year provide update on corrective action every 6 months
- 3rd year agency assigns a financial monitor to the district

## SCHOOL FIRST RATINGS

<b>RATINGS</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Superior Achievement	944	959	939	927
Above Standard Achievement	62	53	71	81
Standard Achievement	3	3	5	10
Substandard Achievement	24	21	21	21
Suspended Due to Data Quality	1	1	1	0
<b>Total</b>	<b>1,034</b>	<b>1037</b>	<b>1037</b>	<b>1039</b>

## SUBSTANDARD ACHIEVEMENT FIRST RATINGS

1 <sup>st</sup> year	17
2 <sup>nd</sup> year	4
3 <sup>rd</sup>	2
4 <sup>th</sup>	1
Total districts	24

School Year \_\_\_\_\_  
 Fiscal Year Ended June 30, \_\_\_\_\_ Or August 31, \_\_\_\_\_  
 County District # \_\_\_\_\_  
 District Name \_\_\_\_\_

**Critical Indicators**

	Check The Appropriate Box Below	
	Yes	No
1 Was Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund?		
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 Five-Year Percent Change In Students Was A 10% Increase Or More Then Answer Yes)		
3 Were There No Disclosures In The Annual Financial Report And/OR Other Sources Of Information Concerning Default On 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)?		
5 Was There An Unqualified Opinion In Annual Financial Report?		
6 Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?		

	Determination of Points					
	5	4	3	2	1	0
<b>Fiscal Responsibility And Academic Performance</b>						
7 Did The District's Academic Rating Exceed Academically Unacceptable?	Yes					No
8 Was The Three-Year Average Percent Of Total Tax Collections (Including Delinquent) Greater Than 98%?	> 98%	> 95%	> 92%	> 89%	> 86%	=< 86%
9 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)?	Yes					No
10 Were Debt Related Expenditures (Net Of IFA And/OR EDA Allment) Less Than \$250.00 Per Student? (If The District's Five-Year Percent Change In Students Was A 7% Increase Or More, Or If Property Taxes Collected Per Penny Of Tax Effort Were More Than \$200,000, Then The District Receives 5 Points)	< \$250	< \$500	< \$750	< \$1,000	< \$1,250	=> \$1,250
11 Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?	Yes					No
12 Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g., No Conservator Or Monitor Assigned)	Yes					No

**Budgeting**

13 Was The Percent Of Operating Expenditures Expended For Instruction More Than Or Equal To 65%? (Functions 11, 36, 93 and 95)(Phased in over three years: 55% for 2006-2007, 60% for 2007-2008, and 65% for 2008-2009)			=> 65%	=> 62%	=> 59%	=> 56%	=> 53%	=> 50%	=> 47%	=> 44%	=> 41%	=> 38%	=> 35%	=> 32%	=> 29%	=> 26%	=> 23%	=> 20%	=> 17%	=> 14%	=> 11%	=> 8%	=> 5%	=> 2%			
14 Was The Percent Of Operating Expenditures Expended For Instruction More Than Or Equal To 65%? (Functions 11, 12, 31, 33, 36, 93, and 95)			=> 65%	=> 62%	=> 59%	=> 56%	=> 53%	=> 50%	=> 47%	=> 44%	=> 41%	=> 38%	=> 35%	=> 32%	=> 29%	=> 26%	=> 23%	=> 20%	=> 17%	=> 14%	=> 11%	=> 8%	=> 5%	=> 2%			
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?	Yes																										
16 If The Districts 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?)	Yes																										
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, Then The District Receives 5 Points)	=> 1.00	=> 0.95	=> 0.90	=> 0.85	=> 0.80	=> 0.75	=> 0.70	=> 0.65	=> 0.60	=> 0.55	=> 0.50	=> 0.45	=> 0.40	=> 0.35	=> 0.30	=> 0.25	=> 0.20	=> 0.15	=> 0.10	=> 0.05	=> 0.00	=> 0.00	=> 0.00	=> 0.00	=> 0.00	=> 0.00	=> 0.00

**Personnel**

18 Was The Administrative Cost Ratio Less Than The Threshold Ratio? (See Ranges Below)	Yes																										
19 Was The Ratio Of Students To Teachers Within The Ranges Shown Below According To District Size?	UL* <= 100%	> 100%	=< 105%	> 110%	=< 115%	> 115%	=< 120%	> 120%	=< 125%	> 125%	=< 130%	> 130%	=< 135%	> 135%	=< 140%	> 140%	=< 145%	> 145%	=< 150%	> 150%	=< 155%	> 155%	=< 160%	> 160%	=< 165%	> 165%	
20 Was The Ratio Of Students To Total Staff Within The Ranges Shown Below According To District Size?	UL** >= 100%	> 100%	=< 105%	> 110%	=< 115%	> 115%	=< 120%	> 120%	=< 125%	> 125%	=< 130%	> 130%	=< 135%	> 135%	=< 140%	> 140%	=< 145%	> 145%	=< 150%	> 150%	=< 155%	> 155%	=< 160%	> 160%	=< 165%	> 165%	
	LL >= 100%	> 100%	=< 105%	> 110%	=< 115%	> 115%	=< 120%	> 120%	=< 125%	> 125%	=< 130%	> 130%	=< 135%	> 135%	=< 140%	> 140%	=< 145%	> 145%	=< 150%	> 150%	=< 155%	> 155%	=< 160%	> 160%	=< 165%	> 165%	

**Cash Management**

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?	UL < 150%	> 150%	=< 152.5%	> 152.5%	=< 155.0%	> 155.0%	=< 157.5%	> 157.5%	=< 160.0%	> 160.0%	=< 162.5%	> 162.5%	=< 165.0%	> 165.0%	=< 167.5%	> 167.5%	=< 170.0%	> 170.0%	=< 172.5%	> 172.5%	=< 175.0%	> 175.0%	=< 177.5%	> 177.5%	=< 180.0%	> 180.0%	
22 Was The Decrease In Undesignated Fund Balance Less Than 20% Over Two Fiscal Years? (If 1.5 Times Optimum Fund Balance Is Less Than Total Fund Balance In General Fund Or If Total Revenues Exceeded Operating Expenditures In The General Fund, Then The District Receives 5 Points).	< 20%	=> 20%	=< 21%	> 21%	=< 22%	> 22%	=< 23%	> 23%	=< 24%	> 24%	=< 25%	> 25%	=< 26%	> 26%	=< 27%	> 27%	=< 28%	> 28%	=< 29%	> 29%	=< 30%	> 30%	=< 31%	> 31%	=< 32%	> 32%	
23 Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?	Yes																										
24 Were Investment Earnings In All Funds (Excluding Debt Service Fund and Capital Projects Fund) More Than \$20 Per Student?		> \$20	=< \$20	> \$18	=< \$18	> \$17	=< \$17	> \$16	=< \$16	> \$15	=< \$15	> \$14	=< \$14	> \$13	=< \$13	> \$12	=< \$12	> \$11	=< \$11	> \$10	=< \$10	> \$9	=< \$9	> \$8	=< \$8	> \$7	=< \$7

Total Points Per Column

**Determination Of Rating**

<b>A. Did The District Answer No To Indicators 1, 2, 3 OR 4; OR Both 5 And 6 (If The District Answered No To Either, The District's Rating Is Substandard Achievement)</b>	<b>Points</b>
<b>B. Determine Rating By Applicable Number Of Points</b>	
Superior Achievement Above Standard	>=75 AND Yes To Indicator 7 >=65 <75 OR >=75 AND No To Indicator 7
Standard Achievement	>=55 <65
Substandard Achievement (If Less Than 55 Points OR If The District Answered No To Indicators 1, 2, 3 OR 4; OR Both 5 And 6)	<55 OR Answered No To One Default Indicator

\* UL - Upper limit  
\*\* LL - Lower limit

For Questions Call The Division Of School Financial Audits At (512) 493-9095

**Administrative Cost Ratio Indicator 18**

ADA Group	Standard
10,000 and Above	0.1105
5,000 to 9,999	.1250
1,000 to 4,999	.1401
500 to 999	.1551
Less than 500	.2054
Score	0.2614

**Student To Teacher Ratio Indicator 19**

District Size - Number of Students Between	Low	High
<500	7.0	22
500 - 999	10.0	22
1000 - 4999	11.5	22
5000 - 9999	13.0	22
=>10,000	13.5	22

**Student To Staff Ratio Indicator 20**

District Size - Number of Students Between	Low	High
<500	5.0	14
500 - 999	5.8	14
1000 - 4999	6.3	14
5000 - 9999	6.8	14
=>10,000	7.0	14

Completed By: \_\_\_\_\_ Date: \_\_\_\_\_

Notes:

Figure: 19 TAC §109.1002(c)

<b>School FIRST - Rating Worksheet Calculations Effective August 2006</b>		
	<b>Indicator</b>	<b>Calculation Defined</b>
1	Was Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund?	$A > 0$ Where $A =$ [Aggregate Of Unreserved, Designated Fund Balance And Unreserved, Undesignated Fund Balance In General Fund At June 30 or August 31 Depending On Fiscal Year End]
2	Was the Total Unrestricted Net Asset Balance (Net of the 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 Five-Year Percent Change In Students Was A 10% Increase Or More Then The District Answers Yes)	If $((C - D) / D) \times 100 < 10\%$ Then Continue Calculation $A + B > 0$ Where $A =$ Total Unreserved Net Asset Balance in the Governmental Activities Column in Exhibit A-1, Statement of Net Assets in the Annual Financial Report; $B =$ Accretion of Interest for Capital Appreciation Bonds; $C =$ [Number Of Students In Year 5 From Base Year]; $D =$ [Number Of Students In Base Year]
3	Were There No Disclosures In The Annual Financial Report And/Or Other Sources Of Information Concerning Default On Bonded Indebtedness Obligations?	No Calculation Involved
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)?	No Calculation Involved
5	Was There An Unqualified Opinion In Annual Financial Report?	No Calculation Involved
6	Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?	No Calculation Involved

Figure: 19 TAC §109.1002(c)

<b>School FIRST - Rating Worksheet Calculations Effective August 2006</b>		
	<b>Indicator</b>	<b>Calculation Defined</b>
7	Did The District's Academic Rating Exceed Academically Unacceptable?	No Calculation Involved
8	Was The Three-Year Average Percent Of Total Tax Collections (Including Delinquent) Greater Than 98%?	$((A / B) \times 100)$ Where A = [Tax Collections For Three Years ]; B = [Tax Levy For Three Years] Reported In Exhibit J-1 Schedule of Delinquent Taxes Receivable In The Annual Financial Report
9	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)?	$((A / B) \times 100)$ Of C Where A = [Absolute Value Of All Differences In Expenditures In Exhibit C-2 Statement of Revenues, Expenditures, and Changes in Fund Balance And PEIMS]; B = [Sum Of Expenditure In PEIMS Per Fund Type Presented In Exhibit C-2]; C = [Fund Class]
10	Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) Less Than \$250.00 Per Student? (If The District's Five-Year Percent Change In Students Was A 7% Increase 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)	If $((B - D) / D) \times 100 < 7\%$ Or $E / F < \$200,000$ , Then Continue Calculation $((A - C) / B)$ Where A = [Function 71 Expenditures Report In The Debt Service And General Funds (Excluding Expenditure Object Codes 6524 and 6525)]; B = [Number Of Students In Year 5 From Base Year]; C = [IFA + EDA Allotments]; D = [Number Of Students In Base Year]; E = [Total Tax Collections]; F = [Total Tax Rate In Pennies]
11	Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?	No Calculation Involved
12	Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g., Conservator Assigned)	No Calculation Involved

Figure: 19 TAC §109.1002(c)

<b>School FIRST - Rating Worksheet Calculations Effective August 2006</b>		
	<b>Indicator</b>	<b>Calculation Defined</b>
13	Was The Percent Of Operating Expenditures Expended For Instruction More Than or Equal to 65%? (Functions 11, 36, 93, 95) <u>(Phased in over three years: 55% for 2006-2007; 60% for 2007-2008; and 65% for 2008-2009)</u>	$((A / B) \times 100)$ Where A = [Expenditures In General Fund, Special Revenue Funds (Excluding SSA Fund Codes) and Capital Projects In Functions 11, 36, 93, 95 And Object Codes 6112-6499]; B = [Expenditures In General Fund, Special Revenue Fund, And Enterprise Fund 701(Child Nutrition Program); (Excluding SSA Fund Codes) And Capital Projects Fund; Functions 11 through 61 and 93 & 95; Object Codes 6112 through 6499]
14	Was The Percent Of Operating Expenditures Expended For Instruction More Than or Equal to 65%? (Functions 11, 12, 31, 33, 36, 93, 95)	$((A / B) \times 100)$ Where A = [Expenditures In General Fund, Special Revenue Funds (Excluding SSA Fund Codes) and Capital Projects In Functions 11, 12, 31, 33, 36, 93, 95 And Object Codes 6112-6499]; B = [Expenditures In General Fund, Special Revenue Fund, And Enterprise Fund 701(Child Nutrition Program); (Excluding SSA Fund Codes) And Capital Projects Fund; Functions 11 through 61 and 93 & 95; Object Codes 6112 through 6499]
15	Was The Aggregate Of Budgeted Expenditures And Other Uses <b>Less Than</b> The Aggregate Of Total Revenues, Other Resources and Fund Balance in General Fund?	$(A + B) - (C + D + E) < 0$ Where A = [Budgeted Appropriations In General Fund]; B = [Budgeted Other Uses In The General Fund]; C = [Budgeted Revenues In General Fund]; D = [Budgeted Other Resources In The General Fund]; E = [Fund Balance In General Fund At July 1 or September 1 Depending On Fiscal Year End]
16	If The District's Aggregate Fund Balance In The General Fund And Capital Projects Fund Was <b>Less Than</b> 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?)	If $(C + D) < 0$ Then Continue Calculation As $(A - B - (C + D)) < 0$ Where A = [Expenditures Function 81 In General Fund and Capital Projects Fund]; B = [Other Resources For Real Property Financing In General Fund and Capital Projects Fund]; C = [Fund Balance In General Fund At July 1 or September 1 Depending On Fiscal Year End]; D = [Fund Balance In Capital Projects Fund At July 1 or September 1 Depending On Fiscal Year End]
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, Then The District Receives 5 Points)	If $B > 0$ Then Continue Calculation As $(A / B)$ Where A = [Cash And Investments In General Fund]; B = [Deferred Revenue In General Fund – Property Tax Receivable Net Of Uncollectible]

Figure: 19 TAC §109.1002(c)

<b>School FIRST - Rating Worksheet Calculations Effective August 2006</b>		
	<b>Indicator</b>	<b>Calculation Defined</b>
18	Was The Administrative Cost Ratio Less Than The Threshold Ratio? (See Ranges Below)	(A>B) A = [Acceptable Administrative Cost Ratio]; B = [Administrative Cost Ratio Of The District]
19	Was The Ratio Of Students To Teachers Within The Ranges Shown Below According To District Size? (See Ranges Below)	(A / B) Where A = [Number Of Students]; B = [Number Of Teachers FTEs]
20	Was The Ratio Of Students To Total Staff Within The Ranges Shown Below According To District Size? (See Ranges Below)	(A / B) Where A = [Number Of Students]; B = [Total Staff FTEs]
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?	Deficient Fund Balance Amount In General Fund Is Defined As $A < ((B \times .5)$ And Excess Is Defined As $A > (B \times 1.5)$ Where A = [Total General Fund Balance At June 30, 20XX or August 31, 20XX Depending On Fiscal Year End]; B = Line 10 in Exhibit J-3, Fund Balance and Cash Flow Calculation Worksheet in the Annual Financial Report.
22	Was The Decrease In Undesignated Unreserved Fund Balance Less Than 20% Over Two Fiscal Years? (If 1.5 Times Optimum Fund Balance Is Less Than Total Fund Balance In General Fund Or If Total Revenues Exceeded Operating Expenditures In The General Fund, Then The District Receives 5 Points).	If $(A - B) > 0$ And Optimum Fund Balance $\times 1.5$ Is Less Than Total Fund Balance In General Fund And $[C] \times .80 > [D]$ , Then Continue Calculation $[A] - [B]$ Where A = [Expenditures In General Fund In Functions 11 Through 61 And Expenditure Object Codes 6100 Through 6400]; B = [Total Revenues In General Fund]; C = [Undesignated, Unreserved Fund Balance In General Fund At June 30 or August 31, Depending On Fiscal Year End, Two Fiscal Years Prior]; D= [Undesignated, Unreserved Fund Balance In General Fund For The Last Fiscal Year]
23	Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?	$A > 0$ Where A = [Cash and Investments In General Fund]
24	Were Investment Earnings In All Funds (Excluding Debt Service Fund And Capital Projects Fund) More Than \$20 Per Student?	(A / B) Where A = [Investment Earnings In All Funds Except Debt Service Fund And Capital Projects Fund]; B = [Number Of Students]

Figure: 19 TAC §109.1002(c)

Indicator 18	
ADA Group	Standard
10,000 and Above	0.1105
5,000 to 9,999	.1250
1,000 to 4,999	.1401
500 to 999	.1561
Less than 500	.2654
Sparse	0.3614

		Ranges for Ratios	
District Size - Number of Students Between		Low	High
<b>Indicator 19</b>			
	<500	7.0	22
	500 999	10.0	22
	1,000 4,999	11.5	22
	5,000 9,999	13.0	22
	=>10,000	13.5	22
<b>Indicator 20</b>			
	<500	5.0	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

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