

Friendswood Independent School District

2017 Annual Financial Management Report School Financial Integrity Rating System of Texas “FIRST”

For the Year Ending August 31, 2016



Thad Roher, Superintendent

Connie Morgenroth, Assistant Superintendent of Business and Operations

**Friendswood Independent School District
2017 Annual Financial Management Report
School FIRST
For the Year Ending August 31, 2016**

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2017 Annual Financial Management
Report – School FIRST**

Introduction

During the 77th regular session of the Texas legislature (2001), Senate Bill 218 was passed and Governor Perry signed it into law shortly thereafter. This law requires each school district to prepare an annual financial management report within two months of the date of issuance of the final School FIRST ratings. The District received official notification of the 2016-2017 Final School FIRST rating on November 3, 2017. This rating is based upon analysis of school year data for the fiscal year ending August 31, 2016.

The purpose of the financial accountability rating system is to ensure 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. The system is designed to encourage Texas public schools to manage their financial resources better in order to provide the maximum allocation possible for direct instructional purposes. The system also discloses the quality of local management and decision-making processes that impact the allocation of financial resources in Texas public schools. An evaluation of the long-term effectiveness of the system should disclose a measurable improvement in the quality of Texas public schools' decision-making processes.

The primary reporting tool is the Financial Accountability Ratings Worksheet. This worksheet was originally developed by representatives of the Texas Education Agency (TEA), the Texas Business & Education Council (TBEC) and the Texas Association of School Business Officials (TASBO). It is administered by the TEA and calculated on information submitted to the Agency via our PEIMS submission each year.

This year's report includes changes made by the Commissioner's Rule that were finalized in May 2017 in accordance with Section 49 of HB 5 enacted by the 83rd 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 and open-enrollment charter school. The changes to the School FIRST system implemented by the Texas Education Agency in August 2015 are being phased-in over three years. During the phase-in period, the new School FIRST system has separate worksheets for rating years 2014-2015, 2015-2016, and 2016-2017 and subsequent years. The worksheet for rating year 2014-2015 contained only 7 indicators and the worksheets for rating years 2015-2016 and 2016-2017 contain 15 indicators.

Under School FIRST, every school district in Texas is required to prepare an annual financial management report that includes the following:

- The district’s financial management performance rating provided by the Texas Education Agency (TEA) based on its comparison with indicators established by the Commissioner of Education for the state’s new Financial Accountability System;
- The district's financial management performance under each indicator for the current and previous years' financial accountability ratings;
- Additional information required (disclosures)

Starting with the 2007 calendar year, the financial management report must contain certain required disclosures, in accordance with Title 19 of the Texas Administrative Code, Chapter 109, Budgeting, Accounting, and Auditing Subchapter AA, Commissioner’s Rules Concerning the Financial Accountability Rating System. These disclosures are as follows:

1. A copy of the Superintendent’s current employment contract (this can be satisfied by placing the contract on the district website);
2. A summary schedule for the fiscal year of total reimbursements received by the superintendent and each board member;
3. A summary schedule for the fiscal year of the dollar amount compensation and/or fees received by the Superintendent from another school district or any outside entity in exchange for professional consulting and/or other personal services;
4. A summary schedule for the fiscal year of the total dollar amount by the executive officers and board members of gifts that had an economic value of \$250 or more;
5. A summary schedule for the fiscal year of the dollar amount by board member for the aggregate amount of business transactions with the school district.

Currently, the worksheet consists of 15 Indicators, each weighted equally with the exception of the Critical Indicators. A “No” response in Indicators #1, #2.A, #3, #4, or #5 will automatically result in a rating of Substandard Achievement, so these first five Indicators are of utmost importance.

In summary, like last year, Friendswood ISD enjoys the highest rating available, “**A = Superior**”, scoring a 90 out of a possible 100 on the financial accountability worksheet. This is the highest financial accountability rating that can be assigned by the TEA. The worksheet itself follows, along with an explanation of each indicator, the indicator goal, and FISD’s performance this year as compared to last year. Finally, as in accordance with Title 19, the required disclosures are included at the back of the report.

2016-2017 RATINGS BASED ON SCHOOL YEAR 2015-2016 DATA - DISTRICT STATUS DETAIL

Name: FRIENDSWOOD ISD(084911)	Publication Level 1: 8/8/2017 2:29:29 PM
Status: Passed	Publication Level 2: 8/8/2017 2:29:29 PM
Rating: A = Superior	Last Updated: 8/8/2017 2:29:29 PM
District Score: 90	Passing Score: 60

#	Indicator Description	Updated	Score
1	<u>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?</u>	3/28/2017 11:33:35 AM	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 to both indicators 2.A and 2.B.		
2.A	<u>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.)</u>	3/28/2017 11:33:36 AM	Yes
2.B	<u>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.)</u>	3/28/2017 11:33:36 AM	Yes

3	<u>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.)</u>	3/28/2017 11:33:36 AM	Yes
4	<u>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?</u>	3/28/2017 11:33:36 AM	Yes
5	<u>Was the total unrestricted net position balance (Net of the accretion of interest for capital appreciation bonds) in the governmental activities column in the Statement of Net Position 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.)</u>	3/28/2017 11:33:37 AM	Yes
			1 Multiplier Sum
6	<u>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)? (See ranges below.)</u>	3/28/2017 11:33:37 AM	10
7	<u>Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt? (See ranges below.)</u>	3/28/2017 11:33:37 AM	8
8	<u>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.) (See ranges below.)</u>	3/28/2017 11:33:38 AM	4

9	<u>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?</u>	3/28/2017 11:33:38 AM	10
10	<u>Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges below.)</u>	5/18/2017 12:23:43 PM	10
11	<u>Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)</u>	3/28/2017 11:33:39 AM	8
12	<u>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.)</u>	6/21/2017 8:18:38 PM	10
13	<u>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?</u>	3/28/2017 11:33:39 AM	10
14	<u>Did the external independent auditor indicate the AFR was free of any instance(s) of material noncompliance for grants, contracts, and laws related to local, state, or federal funds? (The AICPA defines material noncompliance.)</u>	3/28/2017 11:33:40 AM	10
15	<u>Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?</u>	3/28/2017 11:33:40 AM	10
			90 Weighted Sum
			1 Multiplier Sum
			90 Score

DETERMINATION OF RATING

A. Did the district answer 'No' to Indicators 1, 3, 4, 5, or 2.A? If so, the school district's rating is **F for Substandard Achievement** regardless of points earned.

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

A = Superior	90-100
B = Above Standard	80-89
C = Meets Standard	60-79
F = Substandard Achievement	<60

Overview of the Worksheet

Critical Indicators

Indicators 1 through 5 are considered critical indicators. Any “No” response in one of these categories is a signal indicator of fiscal distress. These five indicators revolve around the audit report, timely debt and payroll-related payments and the auditor’s findings.

Indicator #1

Indicator: 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?

Indicator Goal: To ensure the district’s financial report is filed by the deadline.

FISD Answer: Yes. Like last year, the District met this requirement. The annual financial report was received by the Texas Education Agency before the required deadline of February 28, 2017.

Indicator #2 (consists of 2.A. and 2.B.)

Indicator #2. A.: Was there an unmodified opinion in the AFR on the financial statements as a whole? The school district must pass 2.A. to pass indicator number 2. The district fails indicator number 2 if it responds “No” to indicator 2.A. or to both indicators 2.A. and 2.B.

Indicator Goal: To determine whether the annual financial report is free from material misstatement.

FISD Answer: Yes. Like last year, the District received an unqualified opinion in its annual financial report.

Indicator #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?

Indicator Goal: To determine whether the district has established and maintains effective internal control over its financial reporting.

FISD Answer: Yes. Like last year, the annual financial report did not disclose any instances of material weaknesses in internal controls.

Indicator #3

Indicator: Was the school district in compliance with the payment terms of all debt agreements at fiscal year end?

Indicator Goal: To determine if the district made its outstanding bond payments on time and to ensure it is not in default.

FISD Answer: Yes. Like last year, FISD made all required bond payments on time.

Indicator #4

Indicator: Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?

Indicator Goal: To determine if the district fulfilled its payroll-related payment obligations to these organizations.

FISD Answer: Yes. Like last year, FISD made all payroll-related payment obligations on time.

Indicator #5

Indicator: 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?

Indicator Goal: To determine if the district's total assets exceeded the total liabilities.

FISD Answer: Yes. Like last year, FISD earned all 10 points on this indicator. Total unrestricted net asset balance equaled \$9,200,581 this year, and \$8,795,009 last year.

All Other Indicators

Indicator #6

Indicator: 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)?

Indicator Goal: This indicator measures how long in days after the end of the fiscal the school district could have disbursed funds for its operating expenditures without receiving any new revenues. Districts must have more than 90 days to receive all 10 points, and points decrease by 2 as the number of days' decreases.

FISD Answer: Yes. Like last year, FISD earned all 10 points on this indicator. 97.63 days this year and 98.7 days last year.

Indicator #7

Indicator: Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt?

Indicator Goal: 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. To earn the maximum of 10 points, current assets must be more than 3 times current liabilities, and points decrease by 2 as the ratio decreases.

FISD Answer: 2.97; therefore, FISD earned 8 points on this indicator. Current Assets 20,016,228 / Current Liabilities 6,749,584 = 2.97. Last year, Current Assets 20,161,898 / Current Liabilities 5,425,014 = 3.72. FISD earned 10 points on this indicator last year.

Indicator #8

Indicator: Was the ratio of long-term liabilities to total assets for the school district sufficient to support long-term solvency?

Indicator Goal: This question seeks to determine the amount of long-term debt relative to total assets. Fast growth districts pass this indicator if their enrollment has increased more than 10% in 5 years. To receive all 10 points, the long-term debt (net of pension liability) cannot be >60% of total assets, and points decrease as the percentage increases.

FISD Answer: 87.47% therefore, the District received 4 points on this indicator. (LT Liabilities 108,403,575 – Net Pension 9,594,406) / Total Assets 112,960,649 = .8747. FISD received 2 points with 93.22% on this indicator last year, so this reflects an improvement.

Indicator #9

Indicator: 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?

Indicator Goal: To determine if the District spent more than it earned. The school district will automatically pass this indicator if it had at least 60 days' cash on hand.

FISD Answer: 10 of 10 points. FISD passed both parts of this indicator both this year and last; revenues exceeded expenditures, and the District had 97.63 days' cash on hand this year and 98.67 days' cash on hand last year.

Indicator #10

Indicator: Was the debt service coverage ratio sufficient to meet the required debt service?

Indicator Goal: To determine the District's ability to make its debt principal and interest payments due during the year. A ratio of >1.20 earns all 10 points, and the points decrease by 2 as the ratio declines.

Answer: Like last year, FISD received all 10 points. FISD's debt service coverage ratio was 1.315 this year and 1.446 last year.

Indicator #11

Indicator: Was the school district's administrative cost ratio equal to or less than the threshold ratio?

Indicator Goal: To determine whether the district's administrative costs are in an acceptable range for its size. For FISD, a ratio of $<10\%$ earns all 10 points, and the points decrease by 2 as the percentage increases.

FISD Answer: 8 of 10 points. FISD's administrative cost ratio is 10.87% which is above 10%, but less than 12.5%, and earns 8 points. Last year, our ratio was 10.88% and we earned 8 points.

Indicator #12

Indicator: 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 yes or no this indicator.)

Indicator Goal: To determine that if student enrollment is declining by more than 15%, staff are also decreasing proportionately, over a 3-year period.

FISD Answer: Like last year, FISD received all 10 points on this indicator. FISD's enrollment did not decline during this period for either year.

Indicator #13

Indicator: Did the comparison of 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?

Indicator Goal: To determine whether the quality of data reported to TEA through PEIMS and in the annual financial report submission are consistent. If the variance is greater than 3%, districts fail this indicator.

FISD Answer: Like last year, FISD received all 10 points on this indicator. Our variance was near zero percent for both years.

Indicator #14

Indicator: Did the external independent auditor indicate the AFR was free of any instance(s) of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?

Indicator Goal: An audit finding of material non-compliance could indicate a risk of internal weaknesses and signal that public funds are not being properly handled.

FISD Answer: Like last year, FISD did not have any audit findings of material non-compliance and received all 10 points on this Yes or No indicator.

Indicator #15

Indicator: Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?

Indicator Goal: To determine if the district had to ask for an easy payment plan to return monies to TEA after spending the overpayment in state aid from the Foundation School Program.

FISD Answer: Like last year, FISD did not receive an adjusted repayment schedule for overpayments from TEA and received all 10 points on this Yes or No indicator.

REQUIRED DISCLOSURES

Summary Schedule of Reimbursements as of August 31, 2016

Name	Meals	Lodging	Transportation	Fuel	Other	Total
Trish Hanks	\$234.10	\$3,209.98	\$2,665.19		\$3,385.00	\$9,494.27
Rebecca Hillenburg	\$82.42	\$262.35	\$132.42		\$325.00	\$3,165.19
Ralph Hobratschk	\$52.94	\$584.64	\$475.04		\$1,755.00	\$2,867.62
Tony Hopkins		\$693.21	\$140.74		\$1,200	\$2,033.95
Robert McCabe	\$38.08	\$437.26	\$179.00		\$1,275.00	\$1,929.34
David Montz		\$1,157.49			\$1,275.00	\$2,432.49
Matt Robinson		\$411.78			\$75.00	\$486.78
Mike Shaw		\$721.38			\$400.00	\$1,121.38
TOTAL	\$407.54	\$9,841.09	\$3,592.39		\$9,690.00	\$23,531.02

Other includes registration fees and hotel internet services.

Business Transactions Between School Districts and Board Members for FY 2016

There were no business transactions between the District and any board member for FY 2016.

Superintendent Outside Compensation

The Superintendent, Trish Hanks, did not receive any outside compensation or fees for Professional Consulting or other personal services for the twelve-month period ended August 31, 2016.

Superintendent's Contract

The Superintendent's current contract is posted on the District's website at www.myfisd.com.

Executive Officer and Board of Trustees Gifts

The Superintendent and Board Members did not receive any gifts that had an economic value of \$250 or more in aggregate for the twelve-month period ended August 31, 2016 from an outside entity that received payments from Fisd in the prior fiscal year or from competing vendors that were not awarded contracts in the prior fiscal year.