

TEXAS EDUCATION AGENCY'S FINANCIAL INTEGRITY RATING SYSTEM OF TEXAS

2012 FIRST report gives Tomball Independent School District a perfect score for
for fiscal management and financial condition.

John Neubauer, Superintendent
Jim Ross, Chief Financial Officer



Tomball Independent School District Annual Financial Accountability 2012 Management Report

The financial accountability rating report issued by the Texas Education Agency (TEA) is called the *Financial Integrity Rating System of Texas*, or **FIRST**. TEA issues this financial rating each year based on financial data required to be submitted to the Agency by each school district through the Public Education Information Management System (PEIMS). The PEIMS financial data of each school district is used to answer a series of specifically designed financial questions. The resulting financial ratings issued are "superior achievement", "above standard achievement", "standard achievement", "substandard achievement" or "suspended-data quality".

The primary assessment tool for the FIRST rating is the Financial Accountability Rating Worksheet. This worksheet is completed by TEA and designed to assess the overall financial condition of each school district, and the quality of fiscal management by district administrators.

The Financial Accountability Rating Worksheet for 2012 contains 20 questions, or indicators, assessing the 2010-2011 fiscal year of the District. This format was previously 22 indicators. An indicator testing the amount of fund balance was eliminated along with an indicator question regarding the academic standing of the District.

Critical indicators are those numbered 1 through 6. A "No" response for indicators 1, 2, 3, 4, or 5 and 6 together, automatically result in a rating of Substandard Achievement. Indicator questions 7 through 20 require an answer of "Yes" or "No" and are assigned a numerical score. The highest numerical score attainable in the financial rating is a 70. The financial ratings assigned to scores are as follows:

Superior Achievement	64-70
Above Standard Achievement	58-63
Standard Achievement	52-57
Substandard Achievement	<52 or NO to a Critical Indicator

The 2012 School FIRST rating for Tomball ISD as reported by TEA is that of "**Superior Achievement**", scoring a **70** of the possible 70 on the financial accountability rating worksheet. Tomball ISD received the same top rating of "Superior Achievement", with a perfect score in 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2010, and 2011 School FIRST ratings. The 2009 School FIRST rating score was a "Superior Achievement" rating with a score of 84 of the possible 85. The only point deducted since the FIRST rating system began in 2002 was on an indicator question that was deleted in the year after it had been originally added – the 65% rule question. The official TEA 2012 ratings worksheet follows with each of the indicator questions answered for Tomball ISD.

NOTE: The wording used in the indicator questions, and the reason behind each question, can be confusing to non-accountants. Therefore, following the rating worksheet questions will be a brief explanation of what each indicator question means or measures, and how Tomball ISD actually scored on that indicator question.

#1. Was the total fund balance less non-spendable and reserved fund balance greater than zero in the General Fund?

This indicator is a ***Critical Indicator*** because school districts must have a fund balance to ensure adequate funding for operations. The indicator is designed to ensure that our district has a positive amount of fund balance, or ‘rainy-day’ savings, not required to be reserved or set-aside for some specific legal purpose. The financial data for Tomball ISD for this indicator shows Unreserved General Fund fund balance was \$45,659,755. With this fund balance amount the answer for Tomball ISD to this indicator is **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? (Yes, if the District’s 5-year percentage change in students was 10% or more.)

This indicator is a ***Critical Indicator*** designed to measure whether our district has assets available for daily operations. The financial data for Tomball ISD for this indicator showed Unrestricted Net Assets (net of accretion on CABs) totaling \$46,974,982. This indicator also considers whether the District’s 5-year percentage change in students was 10% or more. In 2007 the enrollment was 9,076 and in 2011 enrollment was 10,609. This change is 16.89% and greater than 10%. Therefore the answer for Tomball ISD to this indicator is **YES** to either of the two questions.

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

This indicator is a ***Critical Indicator*** that seeks to make certain that our district has paid our bills and obligations in a timely manner on bonds issued for school construction. The answer for Tomball ISD to this indicator is **YES**.

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

This indicator is a ***Critical Indicator*** designed to identify whether our district has problems producing financial statements for auditors; and consequently, is able to submit an independently audited Annual Financial Report to TEA in a timely manner. The audit due date was February 28th, 2012 and TEA received our audit on December 19th, 2011. The answer for Tomball ISD to this indicator is **YES**.

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

This indicator is a *Critical Indicator* when combined with indicator 6 below. A "Qualification" on our financial report means the District needs to correct some of its reporting or financial controls for a 'clean audit' opinion to be expressed by the independent auditors. Therefore, our district's goal is to receive an "Unqualified Opinion" on its Annual Financial Report. The answer for Tomball ISD to this indicator is **YES**, we have an Unqualified Opinion or 'clean audit'.

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

This indicator is a *Critical Indicator* when combined with indicator 5 above, and both answered with a "No". A 'clean audit' opinion in our Annual Financial Report would indicate our district has no material weaknesses in internal controls. Internal control weaknesses identified in an audit report indicate a risk exists that our district may not be able to properly account for its use of public funds; and, should be immediately addressed. The answer for Tomball ISD to this indicator is **YES**, our independent auditors have not identified and reported material weaknesses in our internal controls.

Deleted Did the District academic rating exceed Academically Unacceptable?

School business administrators strongly objected to the addition of this indicator in 2008. The question is not based on financial management, and measurements already existed for academic results. Finally for the 2012 ratings this indicator question was removed.

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

This indicator measures our district's success in collecting the taxes owed by our community's businesses and homeowners by setting a 98 percent minimum collections standard for a 3-year average. This is a change from the past measurement of 96% for the single year being evaluated. When including delinquent tax dollars paid, Tomball ISD collected an average of 100.22% of its tax levy over the past 3-year period. The answer for Tomball ISD to this indicator is **YES**. **[Score: 5]**

5	4	3	2	1	0
>98%	>95%=<98%	>92%=<95%	>89%=<92%	>86%=<89%	<=86%

#8. Did comparisons 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 whether the data reported in our PEIMS submission and our Annual Financial Report 'matches up' to within 3 percent. Tomball ISD reported a total of \$141,159,644 in expenditures in all funds, and had a total data submission matching error of \$13,370. This is well below the 3% variance with a 0.0001% variance, and the answer for Tomball ISD to this indicator is **YES**. **[Score: 5]**

5 points if less than 3%

0 points if greater than 3%

#9. Were debt-related expenditures (net of IFA and/or EDA allotment) less than \$350 per student? (If the district's five-year percent change in students is equal to or greater than 7%, or if property taxes collected per penny of tax effort is greater than \$200,000, than answer this indicator YES)

This indicator shows the intent for limiting the amount of money a district should be in debt for facilities to \$350 per student. Fortunately, the indicator allows for fast-growing districts to exceed this cap, by observing fast-growth districts must build for the growth they are currently experiencing and in planning for the future. Also the indicator allows for districts that have a property tax base that can support a higher expense per student.

Tomball ISD's debt-related expenditures are well above \$350 per student. However, Tomball ISD has experienced a 5-year average increase in students of 16.89%, which is greater than 7%. Property taxes collected per penny were \$509,979, which is greater than \$200,000. The answer for Tomball ISD to this 3-part indicator is **YES**. **[Score: 5]**

5	4	3	2	1	0
< \$350	>=\$350< \$600	>=\$600< \$850	>=\$850< \$1,100	>=\$1,100< \$1,350	>=\$1,350

#10. Was there NO disclosure in the Annual Audit Report of material noncompliance?

This question is an all or nothing indicator with an answer of either Yes (5 points) or No (0 points). NO disclosure means the Annual Audit Report does not indicate the school district failed to comply with laws, rules and regulations for a governmental entity. The answer for Tomball ISD to this indicator is **YES**, our audited financial report and accompanying disclosures have been found by independent auditors to be compliant with acceptable financial accounting standards and legal requirements. **[Score: 5]**

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

This is an indicator that simply asks the question, "Did TEA take control of our district due to financial issues such as fraud, gross mismanagement, or continued negative fund balances?" If not, the district will pass this indicator. This is an all or nothing indicator with an answer of Yes (5 points) or No (0 points). The answer for Tomball ISD to this indicator is **YES**, we are fully accredited. **[Score: 5]**

#12. Was the aggregate of budgeted expenditures and other uses less than the aggregate of total revenues, other resources and fund balance in the General Fund (GF)?

This indicator simply asks, "Did we spend more than we received in revenue and/or have in 'rainy-day' set-aside savings?" This question is an all or nothing indicator with an answer of either Yes (5 points) or No (0 points). Tomball ISD had total revenues and reserves available of \$126,336,664 with budgeted GF appropriations of \$81,141,617. The answer for Tomball ISD to this indicator is **YES**, we had more than enough resources to fully fund our adopted budget. **[Score: 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)

This question is an all or nothing indicator with an answer of either Yes (5 points) or No (0 points). The indicator simply asks, "Did we spend more than we have on school construction?" This indicator is designed to measure our district's ability to construct facilities without damaging our operating, or General Fund (GF), fund balance. Tomball ISD began the fiscal year with a General Fund fund balance of \$44,644,450 and ended the fiscal year with a General Fund fund balance of \$49,409,302. Capital project expenditures of \$33,346,432 were fully funded with capital projects funds and there was no negative effect on the GF fund balance. The answer for Tomball ISD to this indicator is **YES**, we did not spend more than we had available in the Capital Projects fund on construction projects and use GF fund balance. **[Score: 5]**

#14. Was the ratio of cash and investments to deferred revenues (excluding the amount equal to net delinquent taxes receivables) in the General Fund greater than or equal to 1:1? (If deferred revenues are less than the net delinquent taxes receivable, than the answer to this indicator is YES.)

This indicator measures whether or not our district has sufficient cash and investments to offset dollars already received but not earned from other sources, such as TEA overpayments (deferred revenues). In other words, our district should have the operating capital necessary to pay current year expenses without using money received that will be applied by TEA to operating revenues in the following year. Tomball ISD had Deferred Revenues totaling \$1,706,337 of which \$1,670,518 was deferred for Delinquent Taxes Receivable. We had cash and investments in the General Fund totaling \$47,689,346. Therefore our cash to deferred revenues ratio for this indicator is 28 to 1. The answer to this indicator is **YES**, our ratio is much greater than a 1:1 ratio. **[Score: 5]**

5	4	3	2	1	0
≥ 1.00	$\Rightarrow 0.95 < 1.00$	$\Rightarrow 0.90 < 0.95$	$\Rightarrow 0.85 < 0.90$	$\Rightarrow 0.80 < 0.85$	< 0.80

#15. Was the Administrative Cost Ratio less than the threshold ratio?

This question is an all or nothing indicator with an answer of either Yes (5 points) or No (0 points). The indicator measures compliance with a state law that sets a cap on the percentage of the budget that a Texas school district can spend on administration based on the size of the district. This ratio takes administrative costs and divides them by instructional costs to arrive at this percentage. Based on Tomball ISD's size, our administrative cost limit is 11.05%. Tomball ISD's Administrative Cost Ratio (ACR) is 6.77%, and well below the state standard for a district our size. Tomball ISD's answer to this indicator is **YES**, we strictly control our administrative costs. **[Score: 5]**

Additional Information:

For the 2012 School FIRST rating this indicator threshold was increased to 11.05% for Tomball ISD because student enrollment is now greater than 10,000. Also since this indicator is measuring the often contentious issue of administrative costs and salaries, it seems important to demonstrate how the ACR has changed over the years. In a time of rising salaries and increased costs there has been a conscious and concerted effort to hold down administrative costs at Tomball ISD. The measurement methodology has not been changed since 1999. TEA has officially released the following ACR percentages for Tomball ISD:

<u>Fiscal Year Ending</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Administrative Cost Ratio %	7.91	7.92	7.80	7.26	6.54	6.46	6.77

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

This indicator measures the staffing and personnel management controls of our pupil to teacher ratio to ensure it is within the TEA recommended ranges for a district of our enrollment size. A district our size should have a pupil to teacher ratio between 13.5 to 1 and 22.0 to 1. Tomball ISD has a pupil to teacher ratio of 16.10 to 1, which is within this range. The answer for Tomball ISD to this indicator is **YES**. **[Score: 5]**

#17. Was the ratio of students to total staff within the ranges shown below according to district size?

This indicator measures the staffing and personnel management controls of our pupil to staff ratio to ensure it is within the TEA recommended ranges for a district of our enrollment size. A district our size should have a pupil to staff ratio between 7.0 to 1 and 14.0 to 1. Tomball ISD has a pupil to staff ratio of 7.53 students per staff member, which is within this range. The answer for Tomball ISD to this indicator is **YES**. **[Score: 5]**

This table is used for scoring indicator questions 16 and 17.

	5	4	3	2	1	0
Upper Limit	<=100%	>100%=<105%	>105%=<110%	>110%=<115%	>115%=<120	>120
Lower Limit	=>100%	=>95%<100%	=>90%<95%	=>85%<90%	=>80%<95%	<80%

Deleted 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?

This indicator measures the cash management and fiscal responsibility of our district. The Optimum Fund Balance was a calculation used to determine the amount of funds needed to cover the fall semester cash flow deficit in the General Fund (the time period before tax receipts begin flowing in) PLUS two month's average expenses PLUS reserved and designated fund balance amounts (funds legally restricted either by law or the Board of Trustees). A district was expected to have no less than one-half and no more than one and one-half times this optimum amount in the total General Fund fund balance.

#18. Was the decrease in Undesignated Unreserved Fund Balance less than 20% over two fiscal years? (If total revenues are greater than operating expenditures in the General Fund, then answer this indicator YES and score is 5)

This indicator measures the cash management and fiscal responsibility of our district by asking the question, "Are we depleting our savings to pay district operating expenses?" Undesignated unreserved funds are defined as those dollar amounts not reserved due to legal restrictions, and not designated by the Board of Trustees for tentative or contingency needs, or for future plans of the Board.

This indicator question asks whether or not a deficit budget had been adopted, or if a deficit budget was adopted was it a legitimate reason. The undesignated unreserved fund balance was \$24,169,064 at the beginning and end of the fiscal year. The answer for Tomball ISD to this indicator is **YES**, we are not depleting our fund balance with annual budgeted operating expenses. **[Score: 5]**

5	4	3	2	1	0
< 20%	=>20%< 21%	=>21%< 22%	=>22%< 23%	=>23%< 24%	=>24%

#19. Was the aggregate total of cash and investments in the General Fund more than \$0?

This question is an all or nothing indicator with an answer of either Yes (5 points) or No (0 points). This indicator measures the cash management of our district by asking the simple question "Does our district have immediate cash available either in the bank or in temporary investments?" The answer for Tomball ISD to this indicator is **YES**, we had cash and investments totaling \$47,689,346 as of the end of the fiscal year. **[Score: 5]**

#20. Did investment earnings in all funds (excluding Debt Service and Capital Projects Fund) meet or exceed the 3-month treasury bill rate?

This indicator also measures the cash management of our district by asking the question "Does our district invest our cash and reserve funds wisely?" Tomball ISD earned in interest income a total of \$137,668, which is the equivalent yield of 0.2831% return. This exceeds the 3-month treasury bill rate of 0.095%. The answer for Tomball ISD to this indicator is **YES**, our investment earnings are greater than the average 3-month treasury bill rate **[Score: 5]**

5 points if greater than 0.095%	0 points if less than 0.095%
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SUMMARY

The Financial Integrity Rating System of Texas uses 20 complex financial indicator questions to assess the quality of the fiscal management and financial condition of our school district. A "Yes" or "No" answer is determined for every indicator question and 16 questions receive a numerical score to indicate the level of realization. Tomball ISD received a **YES** answer on all 20 indicator questions and a numerical score of 70 of 70 possible points in the FIRST rating. This score released by the Texas Education Agency officially confirms the financial management practices and fiscal condition of Tomball ISD as being of such high quality to state it as a **"Superior Achievement"**.

The FIRST rating is the tool used by the Texas Education Agency to actually measure fiscal management and condition. However, this assessment tool does not examine the financial reporting and disclosure to user groups. For the benefit of the public being served, understandable and descriptive annual financial reports that have been independently audited for accuracy should be provided by the district.

The highest recognition in governmental finance reporting is receiving a ***Certificate for Excellence in Financial Reporting*** for annual financial reports from the Association of School Business Officials, International (**ASBO**) or the Government Finance Officers Association (**GFOA**). Both of these associations are dedicated to enhancing the professional financial management of governments by identifying, recognizing and promoting the highest quality financial reporting practices of governmental entities. Annual financial reports submitted for review to these two associations are subjected to very stringent and discerning requirements. Only the best in format and disclosure will receive the ***Certificate for Excellence in Financial Reporting***.

For the 2010-2011 fiscal year - the year of review for this FIRST rating - Tomball ISD received the *Certificate for Excellence in Financial Reporting* from both GFOA and ASBO for the twelfth consecutive year. For the 2010-2011 fiscal year 60 of the 1,024 school districts in Texas received the GFOA Certificate for Excellence in Financial Reporting, 39 received the ASBO Certificate for Excellence in Financial Reporting, and only 37 received this award from both associations. Receiving both is an achievement.

The Director of Finance, Laura Vaughn, and her staff should be commended for their outstanding efforts to set our district apart as an example of quality financial reporting. Only 3.61% of Texas school districts received such recognition from both associations for the preparation of financial reports for 2010-2011, and very few districts can boast of receiving both GFOA and ASBO recognition for 13 consecutive years. Less than 1% of Texas public school districts can boast of being awarded a 5-star rating in the State Comptroller’s Financial Allocation Study of Texas (FAST) for cost effectiveness and efficiency and also receive both the ASBO and GFOA certificates of excellence in financial reporting. Tomball ISD is one of only 9 public school districts awarded.

DISCLOSURES

Annual disclosures in accordance with Title 19 Texas Administrative Code Chapter 109, Budgeting, Accounting, and Auditing Subchapter AA, *Commissioner’s Rules Concerning Financial Accountability Rating System* have been added for increased “transparency”. The Commissioner’s Rule concluded that TEA has the discretionary authority to add to the specific disclosures if desired. The disclosures and the format that are included in the financial management report are those required by the Commissioner for the year of review and are:

(A) a copy of the superintendent's most current employment contract, attached to this financial management report and available upon request;

(B) a summary schedule for the fiscal year (12-month period) of total reimbursements received by the superintendent and each board member. The summary schedule separately reports reimbursements for meals, lodging, transportation, motor fuel, and other items (the summary schedule of total reimbursements is not to include reimbursements for supplies and materials that were purchased for the operation of the school district);

<i>Reimbursements for the 12-month period ending August 31, 2010</i>	<i>John Neubauer, Superintendent</i>	<i>Sam Gregson, Vice President</i>	<i>Mark Lewandowski, Trustee</i>	<i>Lisa Nicholas, Secretary</i>	<i>Ken Odom, Trustee</i>	<i>John McStravick, President</i>	<i>Kathy Handler, Assistant Secretary</i>	<i>Michael Pratt, Trustee</i>
<i>Meals</i>	\$ 0	\$ 0	\$ 58	\$ 34	\$ 0	\$ 0	\$ 0	\$ 38
<i>Lodging</i>	\$ 0	256	292	\$ 0	279	0	\$ 242	0
<i>Transportation</i>	0	0	0	\$ 0	0	0	\$ 0	0
<i>Motor Fuel</i>	0	0	0	0	0	0	0	0
<i>Other</i>	\$ 0	0	0	\$ 0	0	0	0	0
TOTAL	\$ 0	\$ 256	\$ 350	\$ 34	\$ 279	\$ 0	\$ 242	\$ 38

**SUMMARY SCHEDULE OF DATA SUBMITTED UNDER THE
FINANCIAL SOLVENCY PROVISIONS OF TEC §39.0822**

This year will be the first year that the district must also provide a summary schedule of the data previously submitted to TEA under the financial solvency provisions of TEC §39.0822. That information follows:

General Fund – First-Quarter Expenditures by Object Code

Reported first 3 months expenditures by object code of fiscal year 2011-2012 in whole numbers:

Payroll – expenditures for payroll costs	\$ 16,425,136
Contract Services – costs for services of firms, individuals, etc.	1,329,667
Supplies and Materials – supplies needed to operate	601,414
Other Operating – costs other than payroll, supplies, etc.	258,052
Debt Service – payments of principal and interest on debt	-0-
Capital Outlay – expenditures on land, buildings, equipment	135,994

Additional Financial Solvency Questions

Within the last two years, did the school district:

- | | |
|--|-----------|
| 1) draw funds from a short-term financing note (term less than 12 months) between the months of September and December, inclusive, and | NO |
| 2) for the prior fiscal year, have a General Fund balance of less than 2% of total expenditures for General Fund function codes 11-61? | NO |

Has the school district declared financial exigency within the past two years? **NO**

Provide comments or explanations for student-to-teacher ratios significantly (more than 15%) below the norm, rapid depletion of General Fund balances, or any significant discrepancies between actual budget figures and projected revenues and expenditures, or any other information that may be helpful in evaluating the school district's financial solvency. **None**

For School Districts with 10,000 to 24,999 Students:

Mean Student-to-Teacher Ratio	14.88	TISD
85% of Mean Ratio	12.65	16.10

How many superintendents has your school district had in the last five years? **1**

How many business managers or chief financial officers has your school district had in the last five years? **1**