Texas Education Agency
Discussion About Concepts and Scores
Several new indicators are more easily recognized and interpreted by both the public and the finance industry.

Several new indicators have a wider sliding scale range to allow a high, medium, or low points award for those indicators (from 0 to 10 points).

The superior rating has a higher standard, allowing the highest performers to be recognized.
Pass
- From 16 to 30 points, with no critical fail indicator.
- This score indicates that the district or charter meets the minimum passing standard for financial integrity.

Substandard Achievement
- From 0 to 15 points or fail a critical indicator.
- Substandard Data Quality because the AFR and data feed (or Charter School Data Template) was not turned in on time and/or was not complete for FIRST analysis.

The ratings and indicators for the first year is different than following years to allow a transition period.
Expected School District Results in 1st Year of FIRST Implementation

- Critical Fail: 1.6%
- Substandard: 3.1%
- Pass: 96.9%
Expected Charter Schools Results in 1st Year of FIRST Implementation

- Critical Fail: 8.2%
- Substandard: 15.5%
- Pass: 84.0%
Failure to meet the requirements of any critical indicator would cause a failure of FIRST.

Indicator 1: Timely filing of the AFR

Indicator 2: Unmodified auditor opinion for the AFR

Indicator 3: Compliance with Debt Agreements
Indicator 4: Administrative cost ratio
- Worth up to 10 points on a scale based on size

Indicator 5: PEIMS data quality
- Worth 10 points

Indicator 6: AFR free of instances of material weakness
- Worth 10 points
Superior is the highest possible score.

Above Standard is an existing category

Meets Standard is the minimum passing score.

Substandard, which may result from critical fail indicators or exceptionally low total points awarded.
Second Year Expected Results for School District

- Critical Fail: 1.6%
- Substandard: 1.9%
- Meets Standard: 6.1%
- Above Standard: 37.5%
- Superior: 54.5%
SECOND YEAR EXPECTED RESULTS FOR CHARTER SCHOOLS: SCHOOL YEAR 2015 – 2016

Second Year Expected Results for Charter Schools

- Critical Fail: 8.2%
- Substandard: 8.8%
- Meets Standard: 22.2%
- Above Standard: 35.1%
- Superior: 34.0%
Failure to meet the requirements of any critical indicator would cause a failure of FIRST.

- **Indicator 1—Timely Filing of the AFR**
- **Indicator 2—Must pass either:**
  - Unmodified Auditor Opinion for the AFR, or
  - No Material Weakness Noted on the AFR
- **Indicator 3—Monetary Default on Debt**
- **Indicator 4—Overdue Payroll Tax**
Each indicator focuses on the solvency of the entity.

Indicator 5: Days Cash On Hand
- Upper score range has been reduced for both school districts and charter schools.

Indicator 6: Current Assets to Current Liabilities Ratio
- Upper score range has been reduced for both school districts and charter schools.
Indicator 7: Long-Term Liability to Long-Term Asset Ratio
- Upper score range has been reduced for both school districts and charter schools.

Indicator 8: Expenditure Analysis
- No longer percent driven. It is a simple pass/fail item.
- School Districts: Compare General Fund Revenue to Expenditures Less Facilities Acquisition and Construction.
- Charter Schools: Compare Total Revenue to Expenses Less Depreciation.
- If revenues are less than expenditures, a passing score can be achieved if the district achieves at least 60 days (or charter school achieves 40 days) for Days Cash on Hand with Indicator 5.
Indicator 9: Debt Service Coverage Ratio
- The upper score range has been reduced for both school districts and charter schools.
- We verified a high pass rate for this indicator for both school districts and charter schools.

Indicator 10: Administrative Cost Ratio
- The range of scores are based on ADA size for school districts and charter schools.

Indicator 11: Decline of Student to Staff Ratio by 15% or more over a 3 year period.
- If a school district or charter school does not experience a decrease in enrollment it will pass this indicator.
Each indicator identifies serious deficiencies in financial management.

Indicator 12: PEIMS Data Quality
- This indicator has not been altered from prior years.

Indicator 13: Material Noncompliance Noted on AFR
- This indicator covers local, state, and federal funds.

Indicator 14: FSP Hardship
- This indicator identifies school districts or charter schools that cannot repay FSP funds without a payment plan with the TEA.
Was the complete annual financial and compliance report (AFR) and the data submitted on or before the November 27 or January 28 deadline depending on the district’s (or charter school’s) fiscal year end date of June 30 or August 31 respectively? Note: There is no 30-day grace period.

Aligns with Texas Education Code (TEC), 44.008(d)

Yes = Pass and No = Fail

Source: AFR
TEC, §44.008(d)

The district shall file a copy of the annual audit report, approved by the board of trustees, with the agency no later than the 150th day after the end of the fiscal year for which the audit was made. If the board of trustees declines or refuses to approve its auditor's report, it shall nevertheless file a copy of the audit report with its statement detailing reasons for failure to approve the report with the agency.
Must pass either:
- Unmodified Auditor Opinion for AFR, or
- No Material Weakness Noted on AFR

No = Pass and Yes = Fail

Source: AFR
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, and the external independent auditor determines if there was an unmodified opinion.

Yes = Pass and No = Fail

Source: AFR
Was the AFR free of any instance(s) of material weaknesses in internal controls related to local, state, or federal funds? The AICPA defines material weakness, and the external independent auditor determines if there are any instances of material weakness.

Yes = Pass and No = Fail

Source: AFR
Was the district (or charter school) in compliance with the payment terms of all debt agreements at fiscal year end? If the school district (or charter school) was in default in a prior fiscal year, an exemption applies in following years if the district (or charter school) 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.

Yes = Pass and No = Fail

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

No = Pass and Yes = Fail

Sources:
- IRS tax data is on the AFR.
- TRS and TWC data is from the comptroller’s office.

Failure to pay payroll liabilities is a misappropriation of funds and speaks to how your district or charter school manages its financial obligations.
## Draft Point Values for Indicators 5 - 14

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total for all indicators</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Was the number of days of cash on hand and current investments in the general fund for the school district (or charter school) sufficient to cover operating expenditures (excluding facilities acquisition and construction) as specified in 19 TAC §109.1001?
DRAFT WHY ARE DAYS CASH ON HAND IMPORTANT TO THE TEA?
The TEA will use the following from school districts:

- Cash & Equivalents as reported in the Balance Sheet (General Fund) on the AFR.
- Current Investments as reported in the Balance Sheet (General Fund) on the AFR.
- Expenditures less Facilities Acquisition and Construction as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance (General Fund) on the AFR.

Worth up to 10 points
The TEA will use the following from charter schools:

- Cash & Equivalents as reported in the Statement of Financial Position.
- Investments as reported in the Statement of Financial Position.
- Total Expenses less Depreciation as reported in the Statement of Activities and Statement of Cash Flows.
- Government charter schools that follow GASB 68 will exclude pension expense from total expenses.

Worth up to 10 points
Was the measure of current assets to current liabilities ratio for the school district (or charter school) sufficient to cover short-term debt as specified in 19 TAC §109.1001?

- The current assets to current liability ratio indicates the ability to pay current liabilities with current assets in the near future.
- This differs from days cash on hand because that indicator analyzes how many days of expenses you can pay with cash on hand.
DRAFT WHY ARE CURRENT ASSETS TO CURRENT LIABILITIES IMPORTANT TO THE TEA?
The TEA will use the following from school districts:
- Current Assets and Current Liabilities as reported in the Statement of Net Position on the AFR.

The TEA will use the following from charter schools:
- Current Assets and Current Liabilities as reported in the Statement of Financial Position on the AFR.

The result (current ratio) is a standard ratio used in commercial lending to government agencies and non-profit organizations.

Worth up to 10 points
Was the measure of long-term liabilities to long-term asset ratio for the school district (or charter school) sufficient to support long-term solvency as specified in 19 TAC §109.1001?

This measures *long-term* solvency and leverage.

It measures only the *long-term* portion of your liabilities (bonds and loans) and assets (school property, buildings, equipment, etc).

- Data source: Financial statements.
- **NOT** Public Education Information Management System (PEIMS) data.

Worth up to 10 points
DRAFT WHY ARE LONG TERM ASSETS AND LONG TERM LIABILITIES IMPORTANT TO THE TEA?


**DRAFT INDICATOR 7: LONG-TERM LIABILITY TO LONG-TERM ASSET RATIO (CONTINUED)**

- *Long-Term* = noncurrent
- The TEA will use the following from school districts:
  - *Long-Term* Liabilities and *Long-Term* Assets as reported in the **Statement of Net Position** on the AFR.
  - When Government Accounting Standards Board (GASB) 68 becomes a reporting item for school districts, we will exclude Net Pension Liability.
**Long-Term** = noncurrent

The TEA will use the following from charter schools:

- **Long-Term** Liabilities and **Long-Term** Assets as reported in the Statement of Financial Position on the AFR.
- When GASB 68 is a reporting item for government charter schools, we will exclude Net Pension Liability.
Did the district’s (or charter school’s) general fund revenues equal or exceed expenditures (excluding facilities acquisition and construction)? If not, was the district’s number of days of cash on hand greater than or equal to 60 days (40 days for charter schools)?

Excessive spending or unrealistic budgets will cause this to be negative.
The TEA will use the following from school districts:

- Total Revenue as reported in the *Statement of Revenues, Expenditures, and Changes in Fund Balance (General Fund)* on the AFR.
- Expenditures less Facilities Acquisition and Construction as reported in the *Statement of Revenues, Expenditures, and Changes in Fund Balance (General Fund)* on the AFR.
- If revenues are less than expenditures, then check for at least 60 days cash on hand on Indicator 6: Days cash on hand.
The TEA will use the following from charter schools:

- Total Revenue as reported in the *Statement of Activities* on the AFR.
- Expenditures less Depreciation as reported in the *Statement of Activities and the Statement of Cash Flows* on the AFR.
- Will exclude pension expense for government charter schools if they follow GASB 68.
- If revenues are less than expenditures, then check for at least 40 days cash on hand on Indicator 6: *Days cash on hand.*

Worth 10 points
Was the debt service coverage ratio sufficient to meet the required debt service as specified in 19 TAC §109.1001?

- Commercial lending typically uses debt service coverage ratio as a solvency measure for governments and non profits.
The TEA will use the following from school districts:

- Revenue less Expenditures plus Interest on Long-Term Debt and Principle on Long-Term Debt as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance (General Fund) on the AFR.
- Interest on Long-Term Debt and Principle on Long-Term Debt.
- Does not include bond issuance costs and fees.
The TEA will use the following from charter schools:

- Revenue less Expenses plus Depreciation Expense plus Interest on Long-Term Debt and Principle on Long-Term Debt as reported in the Statement of Activities and Statement of Cash Flows in the AFR.
- Interest on Long-Term Debt and Principle on Long-Term Debt.
- Charter schools will be required to report depreciation expense and payments of long-term interest and principle as specific line items in the Charter School Data Template.
This is a phase-in indicator that will not be applied until the second year of the new FIRST standards.

Cut scores per year follow:
- First year = N/A
- Second year = 5 to 10 points
- Third year = 0 to 10 points
Was the district’s (or charter school’s) administrative cost ratio equal to or below the threshold ratio as specified in 19 TAC §109.1001?

Excessive administrative costs may reflect:
- Financial inefficiency
- "Top - heavy” organization structure
- Uses ADA thresholds to determine maximum administrative cost ratios.
- Calculation is based on function codes (21+41)/(11+12+13+31).
- Only object codes 61XX through 64XX are used.
  - School districts: Fund code 199
  - Charter schools: Fund code 420

Worth up to 10 points
Did the district (or charter school) have a 15 percent or more decline in the student to staff ratio over 3 years (total enrollment to total staff)? If the student enrollment did not decrease, the district (or charter school) will automatically pass.

- This indicator would not apply to new charters until the fourth year.
- The calculation method is very different than the old student to staff ratio.
- Yes = Fail and No = Pass
- Worth 10 points
Example 1—Failed because of a student decrease without staff decrease:

- In 2013-2014 fiscal year, the student to staff ratio was 10 (300 students, 30 staff FTEs).
- In 2016-2017 fiscal year, the student to staff ratio was 8.5 (255 students, 30 staff FTEs).
- \[(8.5 - 10) / 10 = -0.15\] or 15% decline
- A 15% decline over three years results in a failed indicator.
Example 2—Passed because of a staff decrease with a decrease in students:

- In 2013-2014 fiscal year, the student to staff ratio was 10 (300 students, 30 staff FTEs).
- In 2016-2017 fiscal year, the student to staff ratio was 9 (252 students, 28 staff FTEs).
- \(\frac{(9-10)}{10} = -0.10\) or 10% decline
- A 10% decline over three years results in a passing indicator.
- Source: PEIMS enrollment data
Did the comparison of Public Education Information Management System (PEIMS) data to like information in the district’s (or charter school’s) AFR result in an aggregate variance of less than 3 percent of all expenditures?

Financial data will be compared between PEIMS and the AFR. The sum of absolute value of differences, by function, will be compared. If the result (percent variance) exceeds 3%, the PEIMS data is considered inaccurate.

Yes = Fail and No = Pass

Worth 10 points

Source: AFR data feed (or Charter School Data Template) and PEIMS financial data.
Was the AFR free of any instance(s) of material weaknesses in internal control related to local, state, or federal funds? The AICPA defines material weakness, and the external independent auditor determines if there are any instances of material weakness.

Schedules, notes, and comments on the AFR will be read in context for the material noncompliance for grants, contracts, and laws related to local funds, state funds, or federal funds.

Yes = Fail and No = Pass

Worth 10 points

Source: AFR
Did the school district (or charter school) not receive an adjusted repayment schedule for more than one fiscal year for an overallocation of Foundation School Program (FSP) funds as a result of a financial hardship?

- Yes = Fail and No = Pass
- Worth 10 points
- Source: State Funding Division records of request and approval
DRAFT QUESTIONS AND COMMENTS CAN BE FORWARDED TO THE FOLLOWING EMAIL ADDRESSES

- Michael Needham 936-3751 Financial Analyst
- Yolanda Walker 463-0947 Financial Analyst, Manager
- Robin Aldridge 463-3940 Financial Analyst
- Rita Bunton 936-3712 Financial Analyst
- Chanda Williams 475-2012 Financial Analyst
- David Marx 463-9095 Director
- Fax 305-9165
- Email: financialaccountability@tea.texas.gov
DRAFT ANY QUESTIONS?