

Denton Independent School District

2020 Annual Financial Management Report
School Financial Integrity Rating System of Texas
“FIRST”

For the Year Ending June 30, 2019



DENTON
INDEPENDENT SCHOOL DISTRICT

Dr. Jamie Wilson, Superintendent of Schools
Dr. Scott Niven, Chief Financial Officer
Vicki Garcia, RSTBA, Executive Director of Financial Operations

Table of Contents

	<u>Page</u>
Introduction	3
2019-2020 FIRST Rating	5
Financial Accountability Ratings Worksheet for 2019-2020	
Critical Indicators	8
Solvency Indicators	10
Financial Competence Indicators	12
Required Disclosures	14

Denton Independent School District Annual Financial Management Report

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 2019-2020 Preliminary School FIRST rating on August 6, 2020. A district has the right to appeal within 30 days after TEA's release of the preliminary rating. If a district does not file an appeal, the preliminary rating becomes a final rating 31 days after the issuance of the preliminary rating. The District did not file an appeal therefore the preliminary rating became the Final on September 9, 2020. This rating is based upon analysis of school year data for the fiscal year ending June 30, 2019.

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.

Overview of the Worksheet

The reporting tool for School FIRST is the Financial Accountability Ratings Worksheet. This worksheet was 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 in January each year upon completion and approval of the annual external audit.

This worksheet consists of 15 indicators broken into three categories: Critical, Solvency and Financial Competence.

Critical Indicators

Indicators #1 through #5 are the critical indicators. Any "No" response in this category is an indicator of fiscal distress and automatically results in a failure of FIRST. Accordingly, these indicators are of utmost importance. These five indicators revolve around:

- Timely filing of the Annual Financial Report (AFR)
- Auditor opinion with no unmodified opinion or material weaknesses
- Compliance with the payment terms of all debt agreements
- Timely payment of all payroll-related obligations
- Total net assets greater than zero – (not scored for the 2019-2020 rating year)

Denton ISD passed all the critical indicators.

Solvency Indicators

Indicators #6 through #12 concern the solvency of Denton ISD. These seven indicators focus on:

- Cash and investments on hand
- Current asset to current liability ratio
- Long-term liability to total asset ratio
- Revenues compared to expenditures
- Debt service coverage ratio
- Administrative cost ratio
- Student to staff ratio

Denton ISD scored the maximum points on all these indicators.

Financial Competence Indicators

Indicators #13 through #15 identify if there are any serious deficiencies in the financial management of the District. These three indicators focus on:

- Quality of Public Education Information Management System (PEIMS) financial data compared to the Annual Financial Report (AFR) result in less than a 3% variance
- Instance(s) of material noncompliance noted by the external independent auditor
- Adjustments due to financial hardship to the regular repayment of any Foundation School Program funds overpayments

Denton ISD received the maximum score on all three of these indicators as a comparison of PEIMS data to the AFR resulted in .00001% variance; the AFR noted no instance of material noncompliance; and the District is not on a financial hardship payment plan.

For the eighteenth year in a row, Denton ISD continues its financial excellence with a rating of "Superior" for the 2019-2020 fiscal year, scoring positive responses on all 15 indicators and an overall score of 100 out of 100. Included in this report is the Rating Report received from TEA used in determining the District's score, an explanation of each of the Indicators, and the required disclosures.

**2019-2020 RATINGS BASED ON SCHOOL YEAR 2018-2019 DATA
DISTRICT STATUS DETAIL**

Name: DENTON ISD (061901)		
Status: Passed		
Rating: A = Superior		
District Score: 100		
Passing Score: 60		
#	Indicator Description	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>	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>	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>	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</u>	Yes

	<u>owes money) and their creditors, which includes a plan for paying back the debt.)</u>	
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>	Yes
5	This indicator is not being scored.	
		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>	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>	10
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 7 percent or more, then the school district passes this indicator.) (See ranges below.)</u>	10
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>	10
10	<u>Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges below.)</u>	10
11	<u>Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)</u>	10
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>	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>	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>	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>	10
		100 Score

DETERMINATION OF RATING

A.	Did the district answer 'No' to Indicators 1, 3, 4, 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.

DISD Answer: Yes. The District met this requirement. The annual financial report was received by the Texas Education Agency before the required deadline of November 27, 2019.

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.

DISD Answer: Yes. The District received an unmodified 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.

DISD Answer: Yes. 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.

DISD Answer: Yes. DISD 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.

DISD Answer: Yes. DISD made all payroll-related payment obligations on time.

Indicator #5

Indicator: 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 Positions greater than zero?

Indicator Goal: This indicator is not being scored per TEA.

Solvency 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.

DISD Answer: Yes. DISD earned all 10 points on this indicator. The District had 153.2242 days cash on hand available to cover operating expenditures.

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.

DISD Answer: DISD's current assets to current liabilities ratio was 6.6771; therefore, DISD earned all 10 points on this indicator. Current Assets 731,816,928 / Current Liabilities 109,601,215 = 6.6771.

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.

DISD Answer: The District received all 10 points on this indicator by having a five-year percent change in enrollment that was greater than 7%. The District had a 11.99% increase in enrollment from 2015 to 2019. (LT Liabilities 1,322,733,821 / Total Assets 1,502,364,849 = .8804)

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.

DISD Answer: DISD passed both parts of this indicator receiving 10 of 10 points. Revenues exceeded expenditures, and the District had 153.2242 days' cash on hand.

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.

DISD Answer: DISD received all 10 points. The District's debt service coverage ratio was 2.3142.

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. DISD is compared to other districts of 10,000 ADA or more. For this comparison group, ratio of $<8.55\%$ earns all 10 points, and the points decrease by 2 as the percentage increases.

DISD Answer: DISD's administrative cost ratio was 5.81% which is less than 8.55% earning the District all 10 points for this indicator.

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.

DISD Answer: DISD did not have a decline in student enrollment therefore received all 10 points on this indicator.

Financial Competence Indicators

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.

DISD Answer: DISD received all 10 points on this indicator. Our variance was near zero percent. (.0001%)

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.

DISD Answer: DISD 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.

DISD Answer: DISD 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

2018-19	Dr. Jamie Wilson	Charles Stafford	Jim Alexander	Mia Price	Doug Chadwick	Barbara Burns	Jeanetta Smith	Dorothy Martinez	Total
Meals	849.80	194.56	576.54	112.35	506.31	852.06	147.07	266.87	\$ 3,505.56
Lodging	7,999.07	1,144.25	4,597.68	1,962.06	4,514.47	5,533.96	1,047.32	3,010.38	\$ 29,809.19
Air, gas, rental	2,953.28	899.92	1,081.31	347.76	649.33	2,235.83	764.60	843.00	\$ 9,775.03
Mileage	2,369.24	42.92	645.17	255.06	271.44	121.46	0.00	0.00	\$ 3,705.29
Registration/ other	3,602.69	1,513.54	3,583.85	1,293.64	3,222.71	2,406.29	1,996.60	2,415.60	\$ 20,034.92
Total	\$17,774.08	\$ 3,795.19	\$10,484.55	\$ 3,970.87	\$ 9,164.26	\$11,149.60	\$ 3,955.59	\$ 6,535.85	\$ 66,829.99

Business Transactions Between School Districts and Board Members

There were no business transactions between the District and any board member for FY 2019.

Superintendent Outside Compensation

Superintendent Jamie Wilson did not receive any outside compensation or fees for Professional Consulting or other personal services for the twelve-month period ended June 30, 2019.

Superintendent's Contract

The Superintendent's current contract is posted on the District's website at www.dentonisd.org.

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 June 30, 2019 from an outside entity that received payments from DISD in the prior fiscal year or from competing vendors that were not awarded contracts in the prior fiscal year.