

# Annual Financial Management Report

**WELCOME TO SPRING ISD**  
**NEW HOME OF**



**ExxonMobil**

**Spring Independent School District**

Houston, Texas



**For the Fiscal Year Ended June 30, 2014.**



# Annual Financial Management Report

**WELCOME TO SPRING ISD**  
**NEW HOME OF**

**ExxonMobil**

## Spring Independent School District

Dr. Rodney E. Watson  
Superintendent of Schools

Ann Westbrook, CPA, RTSBA  
Chief Financial Officer

Jorgannie Carter, CPA, RTSBA  
Executive Director of Financial Services

Mary Welch, RTSBA  
Director of Accounting

Houston, Texas



**For the Fiscal Year Ended June 30, 2014.**





# **ANNUAL FINANCIAL MANAGEMENT REPORT**

**Spring Independent School District  
For the Fiscal Year Ended June 30, 2014**

## **TABLE OF CONTENTS**

Introduction	1
Financial Accountability Ratings Worksheet – June 30, 2014	2
Discussion of Base Indicators	3
Other Data Concerning the District’s Operations	5
Schools FIRST Disclosures	9



## INTRODUCTION

The Financial Accountability Rating System of Texas (Schools FIRST) was developed by the Texas Education Agency (TEA) in response to Senate Bill 875 of the 76<sup>th</sup> Texas Legislature in 1999. It is administered by TEA and calculated on information submitted to TEA via our Public Education Information Management System (PEIMS) submission each year.

During the 77<sup>th</sup> regular session of the Texas Legislature in 2001, Senate Bill 218 was passed and signed into law by Governor Perry shortly thereafter. This law requires each school district to prepare an annual financial accountability report, within two months of receiving the official ratings. This is the 13th year of School FIRST.

Major changes to the School FIRST system were implemented by the Texas Education Agency in August 2015 that combined financial indicators with financial solvency indicators, in accordance with House Bill 5, 83rd Texas Legislature, Regular Session, 2013. The primary goal of School FIRST is to achieve quality performance in the management of school districts' financial resources, a goal made more significant due to the complexity of accounting associated with Texas' school finance system.

This rating system ensures that Texas public schools are held accountable for the quality of their financial management practices and that they improve those practices. The system is designed to encourage Texas public schools to better manage their financial resources to provide the maximum allocation possible for direct instructional purposes

The Texas Education Agency converted Schools FIRST to a two-tier rating system of either "P" for "Pass" or "F" for "Substandard Achievement" for the 2013-2014 fiscal year results. Prior to the 2013-2014 fiscal year, the Schools FIRST accountability rating system assigned one of four financial accountability ratings to Texas school districts, with the highest being "Superior Achievement," followed by "Above-Standard Achievement," "Standard Achievement" and "Substandard Achievement." Spring ISD achieved the rating of Superior Achievement for the 2012-2013 fiscal year and 11 prior years.

**Spring Independent School District achieved a rating of "P" for "Passed" under Texas' School FIRST financial accountability rating system for the 2013-2014 fiscal year.** The "Passed" rating is the state's highest, demonstrating the quality of Spring ISD's financial management and reporting system. This report briefly focuses on the details of what the District has accomplished to obtain this rating.

Besides covering the results from the Schools FIRST accountability rating system, this report covers other business-related issues including discussion of the District's financial position.

**2014-2015 RATINGS BASED ON SCHOOL YEAR 2013-2014 DATA**

**Spring Independent School District**

**Status: PASSED | Rating: Pass | District Score: 30**

#	Indicator Description	Score
1	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?	Yes
2	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.)	Yes
3	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.)	Yes
4	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 school district's change of students in membership over 5 years was 10 percent or more, then the school district passes this indicator.)	Yes
		1 Multiplier Sum
5	Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)	10
6	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?	10
7	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.)	10
		30 Weighted Sum
		1 Multiplier Sum
		30 Score

**DETERMINATION OF RATING**

A.	Did The District Answer 'No' To Indicators 1, 2, 3, Or 4? If So, The District's Rating Is <b>Substandard Achievement.</b>
B.	Determine Rating By Applicable Range For Summation of the Indicator Scores (Indicators 5-7)
	<b>Pass</b> 16-30
	<b>Substandard Achievement</b> <16



**DISCUSSION OF BASE INDICATORS**

- 1. 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?**

This indicator merely states the District’s requirement for timely reporting.

Spring ISD met all reporting requirements set by the TEA.

- 2. Was there an unmodified opinion in the AFR on the financial statements as a whole?**

A “modified” version of the auditor’s opinion in your annual audit report means that you need to correct some of your reporting or financial controls. A district’s goal, therefore, is to receive an “unmodified opinion” on its Annual Financial Report.

The District obtained an “unmodified” audit opinion. This indicates that the District’s records were in good condition and fairly presented Spring ISD’s financial position.

- 3. Was the school district in compliance with the payment terms of all debt agreements at fiscal year end?**

This indicator seeks to make certain that your district has paid your bills/obligations on financing arrangements to pay for school construction, school buses, photocopiers, etc.

Spring ISD was in compliance with the payment terms of all debt agreements at fiscal year end.

- 4. 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?**

This indicator seeks to make certain that the District’s total assets exceed the total amount of liabilities.

Spring ISD had a total unrestricted net position balance of \$88,050,992.

- 5. Was the school district’s administrative cost ratio equal to or less than the threshold ratio?**

This indicator measures the percentage of their budget that Texas school districts spent on administration.

Spring ISD’s administrative cost ratio was 0.0726, receiving the maximum 10 points for districts with average daily attendance of 10,000 and higher based on the new determination of points scale:

ADA Size	10	8	6	4	2	0
10,000 and Above	<= 0.0855	> 0.0855 <= 0.1105	> 0.1105 <= 0.1355	> 0.1355 <= 0.1605	> 0.1605 <= 0.1855	> 0.1855

**6. 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?**

This indicator measures the quality of data reported to PEIMS and in your Annual Financial Report to make certain that the data reported in each case “matches up”.

Spring ISD's variance was less than the threshold of 3 percent.

**7. 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?**

A clean audit of the Annual Financial Report would state that your district has no material weaknesses in internal controls. Any internal weaknesses create a risk of the District not being able to properly account for its use of public funds, and should be immediately addressed.

The external independent auditors found that Spring ISD had no instances of material weaknesses in internal controls

## OTHER DATA CONCERNING THE DISTRICT'S OPERATIONS

The purpose of this section is to discuss other aspects of the District's business operations not covered by the Schools FIRST Worksheet directly.

### Administrative Cost Comparison

One measure the State of Texas uses to measure operating cost efficiency is the administrative cost ratio. There is a formula mandated by law. The administrative costs are divided by instructional costs to arrive at a percentage. A district's size determines its administrative cost limitations.

<u>Year</u>	<u>State Limit</u>	<u>District Actual</u>
09-10	11.05%	6.00%
10-11	11.05%	6.10%
11-12	11.05%	6.75%
12-13	11.05%	6.25%
13-14	11.05%	7.26%

### Debt Management

The taxpayers of the District authorized a \$280 million bond program in May 2007 to fund construction, renovation, buses and technology projects and improvements. At June 30, 2014 the total outstanding general obligation and refunding bonds was \$600,670,000 with interest rates ranging from 2.0% - 6.0% and maturities until 2035. The District works alongside financial advisors to schedule refunding of bonds to lower interest rates when the market allows. This shows a commitment to reducing outstanding debt. The District has worked diligently to schedule bond maturities and interest payments to smooth out the impact on the tax rate and to match the useful life of capital assets being purchased and/or constructed.

### Operating Cost Management

The majority of the District's total General Fund expenditures are variable in nature. Over 85% of total expenditures is comprised of salaries and benefits. Contracted services, supplies, materials and other operating costs make up the remainder of what is referred to as operating (fixed/controllable) costs. The chart below illustrates how the District's operating cost per student compares to our neighboring districts.

<u>District</u>	<u>Operating Cost</u>	<u>Average Daily Attendance</u>	<u>Operating Cost Per Student</u>
Alief	\$427,472,163	42,772	\$9,994
Spring Branch	321,246,806	32,474	9,892
Galena Park	203,548,714	20,884	9,749
Aldine	594,477,722	61,546	9,659
<b>Spring</b>	<b>305,784,531</b>	<b>33,591</b>	<b>9,103</b>
Klein	405,842,742	45,318	8,955
Katy	567,342,557	64,052	8,858
Humble	297,620,623	36,022	8,262
Cy Fair	845,389,263	104,638	8,079

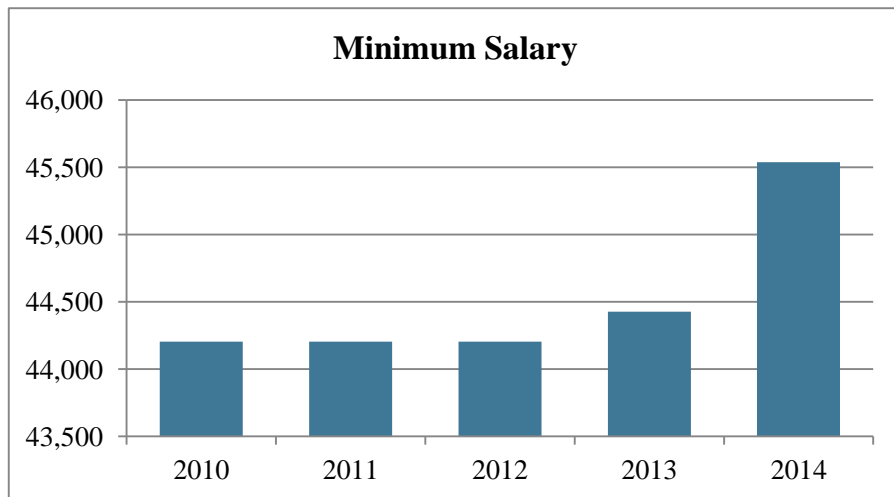
**Facilities Acquisition and Construction Management**

With proceeds of the aforementioned bonds, as of June 30, 2014 the District is continuing with numerous building renovations and technology improvements, with a focus on safety and security.

**Personnel Management**

The District’s longstanding personnel goal is to attract and retain qualified staff and to offer a competitive salary and benefits package each year. Attracting and retaining a quality teaching staff is always a priority of Spring ISD.

The District realizes that it must remain competitive in terms of salary in order to attract and retain highly qualified teachers. One of the District’s goals is to move all teachers into the top quartile of teachers’ salaries in the Houston area. A reflection of this effort can be seen in the chart below which illustrates an increase in the minimum teacher salary over the past six years. The minimum teacher salary has increased by 3% from 2010 to 2014. Budget cuts which include the reduction of state aid funding as a result of the 82<sup>nd</sup> Texas Legislative session forced the District to leave the minimum salary unchanged in 2010, 2011, and 2012.



**Tax Collections**

A consistent tax collection rate aids in the management of debt. As shown below, the District maintains a high collection rate.

<u>Year</u>	<u>Collection Rate</u>
09-10	98.20%
10-11	99.58%
11-12	99.48%
12-13	99.26%
13-14	98.22%

## **Cash Management**

The Schools FIRST worksheet addresses cash and investment issues, but only in a very basic manner. The worksheet criterion essentially provides that cash should be available and earn a minimal rate of return. In truth, the District's investment and cash management program is much more complex.

The District has a legal and local board policy that requires the District to invest funds within specific guidelines meant to ensure liquidity and safety. The District maintains a diverse portfolio consisting of investment pools and money market accounts. The district takes advantage of the opportunity for increased yield with longer term instruments such as certificates of deposits, U. S. Treasuries, Federal Agency Securities, and Federal Instrumentality Securities whenever possible.

The District performs a quarterly review of investment activity and performance, submitting the report to the Board of Trustees.

## **Budgetary Planning & Financial Allocations**

The District's budget process begins usually in November each year. During the first month, an analysis is done of projected revenues and expenditures to determine the priority of the budget process. Budget allocations are developed for each campus and department. The District allocates funds to campuses based on an estimate of student count. Support departments must create a zero-based budget and justify the need for the requested funds. Budget input is scheduled for February. In February, calculations of state and local tax revenues are completed and the budget starts to take on some form. March is the month the District is able to give the Board a view of how the next year's budget looks. In odd-numbered years, the legislature is in session, and that complicates and delays the budgeting process. The optimal time for making a public salary decision is May. Decisions are made on special project requests, revenue data is fine-tuned and a final budget is submitted to the Board of Trustees for approval in either May or June.

Each department budget must exhibit alignment with the District's Five-Year Strategic Plan. After the budget is adopted, each campus or department is given equal latitude regarding amending their budget when their plans or needs change. This decentralized style of budget management is required by the state of Texas. It is called site-based decision making. It is a system that works best in the long run for the District by allocating resources where they are needed, even when those needs change.

## **Annual Audit Report**

Each year, an audit of the District's financial statements is performed by the independent auditors, Whitley Penn, LLP. The auditors' responsibility is to report on the District's financial status and to ensure that the District is accurately handling the financial records within required standards. This report is a critical element of the accountability ratings worksheet, covering five criteria.

For the fiscal year ended June 30, 2014, the District received an "unmodified" opinion with no reportable conditions or material weaknesses.

### **Awards and Recognitions**

Spring ISD prides itself in its professional and proper handling of its internal accounting procedures and financial reporting abilities. The District has been awarded the Certificate of Excellence in Financial Reporting for the past 33 years from the Association of School Business Officials, International (ASBO), and for the past 33 years from the Government Finance Officers Association (GFOA). Both associations have stringent requirements for their award, and it is a credit to the District and its taxpayers to be recognized nationally in such a manner.



## SCHOOLS FIRST DISCLOSURES

Per Title 19 Administrative Code Chapter 109, Budgeting, Accounting, and Auditing, Subchapter AA, Commissioner’s Rules Concerning Financial Accountability Rating System, the six (6) disclosures listed below are included in the appendix. The disclosures will include:

1. Current Superintendent’s employment contract.

The Superintendent’s contract can be found on the Spring ISD website at:  
<http://www.springisd.org/docs2/board/Superintendent-Employment-Contract.pdf>

2. Reimbursements received by the Superintendent and Board Members for Fiscal Year 2014.

Description of Reimbursements	Dr. Ralph Draper Superintendent	Dr. Dalane Bouillion Interim Superintendent*
Meals	\$494.55	\$95.11
Lodging	2,737.49	239.35
Transportation	1,356.29	1,765.70
Other	2,988.61	2,475.76
<b>Total</b>	<b>\$7,576.94</b>	<b>\$4,575.92</b>

\*Dr. Bouillion was Interim Superintendent from February 1, 2014 to June 30, 2014

Description of Reimbursements	Dr. Deborah Jensen	Chris A. Bell	Justine Durant	Rhonda L. Faust	Mel Smith	Ron Crier	Jana Gonzalez
	Position #1	Position #2	Position #3	Position #4	Position #5	Position #6	Position #7
Meals		\$58.69				\$752.55	\$144.58
Lodging	\$1,310.58	1,077.01	\$1,310.58	\$627.15	\$627.15	2,679.87	1,961.79
Transportation	640.50	622.50	640.50	640.50	674.50	1,675.22	782.00
Other	1,020.00	1,097.48	1,020.00	725.00	725.00	2,109.26	1,335.00
<b>Total</b>	<b>\$2,971.08</b>	<b>\$2,855.68</b>	<b>\$2,971.08</b>	<b>\$1,992.65</b>	<b>\$2,026.65</b>	<b>\$7,216.90</b>	<b>\$4,223.37</b>

Note: Items reported per category, regardless of manner of payment, include:

- Meals – Meals consumed out of town, and in-district meals at area restaurants (outside of board meetings, excludes catered board meeting meals).
- Lodging - Hotel charges.
- Transportation - Airfare, car rental (can include fuel on rental, taxis, mileage reimbursements, leased cars, parking and tolls).
- Other - Registration fees, telephone/cell phone, internet service, fax machine, and other reimbursements (or on-behalf of) to the superintendent and board member not defined above.

3. Outside compensation and/or fees received by the Superintendent or Interim Superintendent for professional consulting and/or other personal services in fiscal year 2014.

For the Twelve-Month Period Ended June 30, 2014	
Name(s) of Entity(ies)	Amount
None	
Total	\$0

4. Gifts received by the executive officer(s) and Board members (and first degree relatives, if any) in fiscal year 2014.

For the Twelve-month Period Ended June 30, 2014	Dr. Ralph Draper Superintendent	Dr. Dalane Bouillion Superintendent
Summary Amounts	\$0	\$0

For the Twelve-month Period Ended June 30, 2014	Dr. Deborah Jensen	Chris A. Bell	Justine Durant	Rhonda L. Faust	Mel Smith	Ron Crier	Jana Gonzalez
	Position #1	Position #2	Position #3	Position #4	Position #5	Position #6	Position #7
Summary Amounts	\$0	\$0	\$0	\$0	\$0	\$0	\$0

5. Business transactions between board members and the district.

For the Twelve-month Period Ended June 30, 2014	Dr. Deborah Jensen	Chris A. Bell	Justine Durant	Rhonda L. Faust	Mel Smith	Ron Crier	Jana Gonzalez
	Position #1	Position #2	Position #3	Position #4	Position #5	Position #6	Position #7
Summary Amounts	\$0	\$0	\$0	\$0	\$0	\$0	\$0

6. Any other information the Board of trustees of the school district determines to be useful.

None.





## Spring ISD Vision Statement

**By 2015, Spring Independent School District will be recognized nationally as a leader among learning organizations and known for exemplary student achievement.**

Spring Independent School District  
16717 Ella Boulevard • Houston, Texas 77090  
281.891.6000 • [www.springisd.org](http://www.springisd.org)



Spring Independent School District is an equal opportunity employer. The Board of Trustees and its agents, officers and staff members shall not discriminate on the basis of gender, race, disabling condition, age, color, religion, national origin, military status, or any other legally protected status in making decisions regarding staff members or students.