



Pearland Independent School District Annual Financial Management Report

For the Fiscal Year Ended June 30, 2017

Dr. John Kelly, Superintendent
Jorgannie Carter, Chief Financial Officer

ANNUAL FINANCIAL MANAGEMENT REPORT

**Pearland Independent School District
For the Fiscal Year Ended June 30, 2017**

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John P. Kelly, Ph.D.
Superintendent

October 9, 2018

Board of Trustees
Pearland Independent School District

Dear Members of the Board:

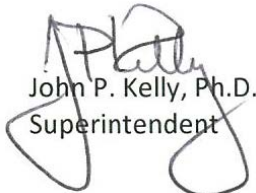
Pearland Independent School District received a rating of "A" for "Superior Achievement" under Texas' School FIRST financial accountability rating system. The rating system measures the quality of a school district's financial management and reporting system.

This is the 16th year of School FIRST (Financial Accountability Rating System of Texas), a financial accountability system for Texas school districts developed by the Texas Education Agency in response to Senate Bill 875 of the 76th Texas Legislature in 1999 and amendments under 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.

The Schools FIRST accountability rating ensures that Texas school districts are accountable not only for student learning, but also for achieving these results cost effectively and efficiently. The information provided by the Schools FIRST system will guide us in our continued efforts to maximize each taxpayer dollar.

The Texas Education Agency assigns one of four financial accountability ratings to Texas school districts, with the highest being "A" for "Superior Achievement," followed by "B" for "Above-Standard Achievement," "C" for "Standard Achievement" and "F" for "Substandard Achievement." Pearland ISD has achieved the highest rating for fifteen of the sixteen years in existence.

Sincerely,


John P. Kelly, Ph.D.
Superintendent

INTRODUCTION

The state's school financial accountability rating system, known as the School Financial Integrity Rating System of Texas (FIRST), ensures that Texas public schools are held accountable for the quality of their financial management practices and that they improve those practices.

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. 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 School FIRST was developed by the Texas Education Agency (TEA) in response to Senate Bill 875 of the 76th 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 77th 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 16th 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 School FIRST accountability rating system assigns 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." Pearland ISD has achieved the highest rating for fifteen out of the sixteen years in existence.

Pearland Independent School District received a rating of "A" for "Superior Achievement" under Texas' School FIRST financial accountability rating system for the 2017-2018 rating year. The "Superior Achievement" rating is the state's highest, demonstrating the quality of Pearland ISD's financial management and reporting system. A score of 90 out of a possible 100 earns the rating of Superior Achievement and Pearland received a score of 94.

This report briefly focuses on the details of what the District has accomplished to obtain this rating and contains certain required disclosures.

**FINANCIAL INTEGRITY RATING SYSTEM OF TEXAS
2017-2018 RATINGS BASED ON SCHOOL YEAR 2016-2017 DATA**

PEARLAND INDEPENDENT SCHOOL DISTRICT

Status: PASSED | Rating: A = SUPERIOR | District Score: 94

#	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	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	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
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? (The AICPA defines material weakness.)	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	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?	Yes
5	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 7 percent or more, then the school district passes this indicator.)	Yes
6	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)?	8
1 Multiplier Sum		

#	Indicator Description	Score
7	Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt?	6
8	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.)	10
9	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?	10
10	Was the debt service coverage ratio sufficient to meet the required debt service?	10
11	Was the school district's administrative cost ratio equal to or less than the threshold ratio?	10
12	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.)	10
13	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
14	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.)	10
15	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?	10
94 Weighted Sum		
1 Multiplier Sum		
94 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

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.
Pearland ISD met all reporting requirements set by the TEA.

- 2. Review the AFR for an unmodified opinion and material weaknesses.**

- (A) 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.)**

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 Pearland ISD's financial position.

- (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? (The AICPA defines material weakness.)**

A clean audit of the Annual Financial Report would state that the 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 District's Annual Financial Report was free of material weaknesses in internal controls.

- 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.

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

- 4. 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?**

This indicator seeks to make sure the District fulfilled its obligation to the TRS, TWC and IRS to transfer payroll withholdings and to fulfill any additional payroll-related obligations required to be paid by the District.

Pearland ISD made timely payments to the TRS, TWC, IRS, and other government agencies.

- 5. 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?**

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

Pearland ISD had a total unrestricted net position balance of \$54,743,265.

6. 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)?

This indicator measures how long in days after the end of the fiscal year the school district could have disbursed funds for its operating expenditures without receiving any new revenues.

Pearland ISD's number of days of cash on hand and current investments was 89.54, receiving 8 points based on the determination of points scale.

10	8	6	4	2	0
>=90	<90 >=75	<74 >=60	<60 >=45	<45 >=30	<30

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

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

At the end of the fiscal year, Pearland ISD had current assets covering 2.32 times its current liabilities, receiving 6 points based on the determination of points scale.

10	8	6	4	2	0
>=3.00	<3.00 >=2.50	<2.50 >=2.00	<2.00 >=1.50	<1.50 >=1.00	<1.00

8. 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.)

This question is like asking someone if their mortgage exceeds the market value of their home.

Pearland ISD's ratio of long-term liabilities to total assets was 0.69; however, its change in student membership over five years was 9.88%, automatically receiving 10 points.

10	8	6	4	2	0
<=0.60	>0.60 <=0.70	>0.70 <=0.80	>0.80 <=0.90	>0.90 <=1.00	>1.00

9. 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?

This indicator simply asks, "Did you spend more than you earned?" The school district will automatically pass this indicator, if the school district had at least 60 days' cash on hand.

Pearland ISD's general fund revenues exceeded expenditures and had 89.54 days of cash on hand, earning the District 10 points.

10. Was the debt service coverage ratio sufficient to meet the required debt service?

This indicator asks about the school district’s ability to make debt principal and interest payments that will become due during the year.

Pearland ISD’s debt service coverage ratio was 1.92, receiving the maximum of 10 points.

10	8	6	4	2	0
≥ 1.20	$< 1.20 \geq 1.15$	$< 1.15 \geq 1.10$	$< 1.10 \geq 1.05$	$< 1.05 \geq 1.00$	< 1.00

11. 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.

Pearland ISD’s administrative cost ratio was .0575, receiving the maximum 10 points for districts with average daily attendance of 10,000 and higher.

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

12. 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 school district had a decline in students over 3 school years, this indicator asks if the school district decreased the number of the staff on the payroll in proportion to the decline in students. (The school district automatically passes this indicator if there was no decline in students.)

Pearland ISD’s enrollment increased by 5.04% students from fiscal year 2014-2015 to fiscal year 2016-2017, automatically passing this indicator.

13. 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”.

Pearland ISD’s variance was 0 percent, earning the District 10 points.

14. 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?

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 Pearland ISD had no instances of material weaknesses in internal controls.

15. 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?

This indicator asks if the District had to ask for an easy payment plan to return monies to TEA after spending the overpayment from the Foundation School Program state aid.

Pearland ISD met the requirement by having no adjusted repayment schedule.

SCHOOL 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 this appendix:

1. Current Superintendent’s employment contract.

The Superintendent’s contract can be found on the Pearland ISD website at:

https://www.pearlandisd.org/cms/lib/TX01918186/Centricity/Domain/88/Dr_Kelly_Contract_2018.pdf

2. Reimbursements received by the Superintendent and Board Members for the twelve-month period ended June 30, 2017.

Description of Reimbursements	Dr. John Kelly, Superintendent	Charles Gooden, Jr. Position 1	Rusty DeBorde Position 2	Mike Floyd Position 2	Pam Boegler Position 3	Sean Murphy Position 4	Rebecca Decker Position 5	Lance Botkin Position 6	Jeff Barry Position 7
Meals	\$41.99	\$0.00	\$36.00	\$0.00	\$0.00	\$41.99	\$72.00	\$244.35	\$113.99
Lodging	707.41	189.00	0.00	0.00	0.00	216.84	206.01	1,981.06	787.71
Transportation	58.00	178.32	150.73	0.00	0.00	192.23	0.00	1,236.65	192.50
Motor Fuel	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	245.00	450.00	530.00	385.00	710.00	160.00	325.00	1,575.00	50.00
Total	\$1,052.40	\$817.32	\$716.73	385.00	\$710.00	\$611.06	\$603.01	\$5,037.06	\$1,144.20

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

- Meals – Meals consumed off of the school district’s premises 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.
- Motor Fuel – Gasoline.
- 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 for professional consulting and/or other personal services for the twelve-month period ended June 30, 2017.

None.

4. Gifts received by the executive officer(s) and board members (and first degree relatives, if any) for the twelve-month period ended June 30, 2017.

	Dr. John Kelly, Superintendent	Charles Gooden, Jr. Position 1	Rusty DeBorde Position 2	Mike Floyd Position 2	Pam Boegler Position 3	Sean Murphy Position 4	Rebecca Decker Position 5	Lance Botkin Position 6	Jeff Barry Position 7
Summary Amounts	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

5. Business transactions between board members and the District for the twelve-month period ended June 30, 2017.

	Dr. John Kelly, Superintendent	Charles Gooden, Jr. Position 1	Rusty DeBorde Position 2	Mike Floyd Position 2	Pam Boegler Position 3	Sean Murphy Position 4	Rebecca Decker Position 5	Lance Botkin Position 6	Jeff Barry Position 7
Summary Amounts	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

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

None.