



Schools FIRST Performance Report
For the Ten Months Ended June 30, 2005

North East Independent School District Introduction to Schools FIRST For the Ten Months Ended June 30, 2005

The Texas Education Agency (TEA) has issued the Schools Financial Integrity Rating System of Texas (FIRST) ratings for fiscal period 2004 -2005, which ended June 30, 2005. North East Independent School District (NEISD) has received a rating of "Superior". NEISD has received a rating of "Superior" in each of the four years since Schools FIRST has been implemented.

The Schools FIRST rating system was implemented by the Texas Education Agency in response to Senate Bill 875 of the 76th Texas Legislature in 1999. The primary goal of Schools 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 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."

An explanation of the individual indicators and NEISD's results begins on the next page. However, the results in the current year ratings were influenced by the NEISD's change in fiscal year which negated the validity of several indicators. TEA gives districts that changed its fiscal year-end a passing score on these indicators as there is no objective comparison. Indicators that were forced positive will be marked with an asterisk.

The ratings for NEISD are available on the NEISD website at the following address:
<http://www.neisd.net/fina/CAFRS.html>

TEA maintains the listing for all school districts and the state as a whole at the following website:
<http://hancock.tea.state.tx.us/First/main.aspx>

North East Independent School District Schools FIRST Indicators & Results

1. Was total Fund Balance less Reserved Fund Balance greater than zero in the General Fund?

School districts must legally have a fund balance to ensure adequate funding for operations. This indicator is designed to ensure that a district has a positive amount of fund balance that is not legally set aside or “reserved” for a specific purpose. In other words, “Does your district have funds set aside for a rainy day?”

NEISD Result:

2004-2005	\$59,002,062
2003-2004	\$38,209,955

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

This indicator seeks to make certain that a district has paid its bills/obligations on bonds issued to pay for school construction.

NEISD Result:

2004-2005	No default
2003-2004	No default

3. Was the Annual Financial Report filed within one month after the November 27 or January 28 deadline depending upon the district’s Fiscal Year end date (June 30 or August 31)?

A simple indicator. Was the Annual Financial Report filed by the deadline?

NEISD Result:

2004-2005	Filed timely
2003-2004	Filed timely

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

A “qualification” on your financial report means that a district needs to correct some of its reporting or financial controls. A district’s goal, therefore, is to receive an “unqualified opinion” on its Annual Financial Report. This is a simple “Yes” or “No” indicator.

NEISD Result:

2004-2005	Unqualified opinion
2003-2004	Unqualified opinion

North East Independent School District Schools FIRST Indicators & Results (continued)

5. Did the Annual Financial Report NOT disclose any instance(s) of material weakness in internal controls?

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

NEISD Result:

2004-2005	No material weaknesses
2003-2004	No material weaknesses

6. Was the percent of total tax collections (including delinquent) greater than 96 percent?

This indicator measures a district's success in collecting the taxes owed by our community's businesses and homeowners, placing a 96 percent minimum collections standard. A district must collect 96 percent or more of taxes, **including** any delinquent taxes owed from past years.

NEISD Result:

2004-2005	99.03%
2003-2004	103.50%

7. Did the comparison of PEIMS data to like information in the Annual Financial Report result in an aggregate variance of less than 4 percent of expenditures per fund type (Data Quality Measure)?

This indicator measures the quality of data reported to PEIMS and in the CAFR to make certain that the data reported in each case "matches up." If the difference in numbers reported in any fund type is more than 4 percent, the district "fails" this measure.

NEISD Result:

2004-2005	12.15% variance*
2003-2004	0.0001% variance

The reason for the large variance is that the CAFR was reported on a 10 month basis and PEIMS was reported on a 12 month basis per TEA requirements. TEA considers NEISD to have passed this indicator as the State had differing reporting requirements.

**North East Independent School District
Schools FIRST Indicators & Results (continued)**

- 8. Were Debt-Related Expenditures (net of IFA and/or EDA allotment) less than \$770 per student? (If the district’s five year percent change in students was a 2 percent increase or more, or if property taxes collected per penny of tax effort were more than \$100,000, then answer this indicator YES.)**

This indicator shows the Legislature’s intent for school districts to spend money on education, rather than fancy buildings, by limiting the amount of money districts can spend on debt to \$770 per student. Fortunately, the Legislature did allow for fast-growth schools to exceed this cap.

NEISD Result:

2004-2005	\$1,164 per student 12.56% growth \$1,797,119 per penny of effort
2003-2004	\$768 per student 13.84% growth \$1,699,722 per penny of effort

- 9. Was there NO disclosure in the Annual Audit Report of Material Noncompliance?**

NO disclosure means the Annual Audit Report includes no disclosure indicating that the school district failed to comply with laws, rules and regulations for a government entity.

NEISD Result:

2004-2005	No material noncompliance
2003-2004	No material noncompliance

- 10. Did the district have full accreditation status in relation to financial management practices? (e.g. no master or monitor assigned)**

Did TEA take over control of the district due to financial issues such as fraud or having a negative fund balance? If not, the district passed this indicator.

NEISD Result:

2004-2005	Fully accredited
2003-2004	Fully accredited

**North East Independent School District
Schools FIRST Indicators & Results (continued)**

11. Was the percentage of Operating Expenditures expended for Instruction more than 54 percent?

This indicator shows NEISD's ability to focus the majority of its funding so that it directly pays for student instruction. Only items such as salaries of classroom teachers and classroom supplies qualify as "Instruction" expenditures in this calculation (Function 11).

NEISD Result:	
2004-2005	60.46%
2003-2004	60.77%

12. Was the aggregate of Budgeted Expenditures and Other Uses LESS THAN the aggregate of Total Revenues, Other Resources and Fund Balance in General Fund?

Did the district overspend its budget? The district will receive a negative rating on this measure if its total expenditures and other uses for the fiscal year exceeded its total funds available.

NEISD Result:	
2004-2005	\$32,739,568 Surplus
2003-2004	\$50,286,687 Surplus

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? (Were construction projects adequately financed or adjusted by change orders or other legal means to avoid creating or adding to the fund balance deficit situation?)

Did the District over-spend on school buildings or other capital projects? This indicator measures NEISD's ability to construct facilities without damaging its Fund Balance.

NEISD Result:	
2004-2005	\$ 68,631,982 General Fund
	<u>209,517,109 Capital Projects</u>
	<u>\$278,149,091</u>
2003-2004	\$ 52,850,822 General Fund
	<u>298,896,561 Capital Projects</u>
	<u>\$351,747,383</u>

North East Independent School District
Schools FIRST Indicators & Results (continued)

- 14. Was the ratio of Cash and Investments to Deferred Revenues (excluding amount equal to net Delinquent Taxes Receivable) in the General Fund greater than or equal to 1:1? (If Deferred Revenues are less than Delinquent Taxes Receivable, then answer this indicator YES.)**

This indicator measures whether or not the district has sufficient cash and investments to balance Fund Balance monies such as TEA overpayments (deferred revenues). In other words, the district should have fund balance monies of its own that are at least equal to those dollars that are there due to overpayments from TEA, and you should not be spending “next year’s” monies this year.

NEISD Result:

2004-2005	\$93,142,288 greater than \$10,921,199
2003-2004	\$71,408,585 greater than \$8,166,678

- 15. Was the Administrative Cost Ratio less than the standard in State Law?**

TEA and state law sets a cap on the percentage of their budget that Texas school districts can spend on administration. Did you exceed the cap for districts of your size?

NEISD Result:

2004-2005	NEISD Administrative Cost \$.0648
2003-2004	NEISD Administrative Cost \$.0676

State Standard

Both Years	Administrative Cost Ratio < \$.1105
------------	-------------------------------------

- 16. Was the Ratio of Students to Teachers within the range shown below according to district size?**

This indicator measures a district’s pupil-teacher ratio to ensure that it is within TEA recommended ranges for districts specified student population range. For example, districts with a student population greater than 10,000 should have no more than 22 students per teacher and no fewer that 13.5 students per teacher.

NEISD Result:

2004-2005	15.1
2003-2004	15.3

State Standard

Range between 13.5 & 22.0 Teachers per Student

**North East Independent School District
Schools FIRST Indicators & Results (continued)**

17. Was the Ratio of Students to Total Staff within the range shown below according to district size?

This indicator measures a district's pupil-staff ratio to ensure that it is within TEA recommended ranges for districts in a specified student population range. For example, districts with a student population greater than 10,000 should have no more than 14 students per staff member and no fewer than 6.6 students per district employee.

NEISD Result:

2003-2004	7.9
2002-2003	7.9

State Standard

Range between 6.6 & 14 Staff per Student

18. Was the Total Fund Balance in the General Fund more than 50 percent and less than 150 percent of Optimum according to the Fund Balance and Cash Flow Calculation Worksheet in the Annual Financial Report?

Exhibit J-3 in the Comprehensive Annual Financial Report provides an optimum General Fund "Fund Balance" for the district. A district should have no less than one-half and no more than one and one half times this amount in the Fund Balance, counting both reserved and unreserved fund balances.

NEISD Result:

2004-2005	Optimum Fund Balance	\$54,068,903*
	Actual Fund Balance	\$68,631,982
2003-2004	Optimum Fund Balance	\$57,405,097
	Actual Fund Balance	\$52,850,822

The change in fiscal year results in unexpected changes in fund balance. TEA considers this a timing difference and passes all districts that change their fiscal year.

North East Independent School District
Schools FIRST Indicators & Results (continued)

- 19. Was the decrease in Unreserved, Undesignated Fund Balance less than 20 percent over two Fiscal Years? (If 1.5 times Optimum Fund balance in General Fund or if Total Revenues exceeded Operating Expenditures in the General Fund, then answer this indicator YES.)**

Is the district depleting fund balance to pay for salaries or other district operating expenses? This indicator notes rapid decreases in your undesignated Fund Balance (those dollars not designated as a "land fund" or "construction fund") or emergency fund.

NEISD Result:

2004-2005	Yes	Increase of \$31,532,865
2003-2004	Yes	Increase of \$ 7,107,657

- 20. Was the Aggregate Total of Cash and Investments in the General Fund more than \$0?**

Does the district have cash in the bank, and/or investments?

NEISD Result:

2004-2005	\$93,142,288
2003-2004	\$71,408,585

- 21. Were Investment Earnings in all funds more than \$15 per student?**

Is the district using its cash or reserve fund (Fund Balance) monies wisely?

NEISD Result:

2004-2005	\$163 per student
2003-2004	\$92 per student