

ARLINGTON INDEPENDENT SCHOOL DISTRICT

Annual Financial Management Report 2008



ARLINGTON INDEPENDENT SCHOOL DISTRICT
2008 Annual Financial Management Report
Table of Contents

| Exhibit | Item Description | Page |
|----------------|--|-------------|
| --- | Letter of Transmittal | 1 |
| Exhibit A-1 | Schools FIRST Rating Worksheet | 5 |
| Exhibit A-2 | Explanations of Schools FIRST Indicators | 9 |
| Exhibit B-1 | Superintendent's Current Employment Contract | 13 |
| Exhibit B-2 | Summary Schedule of Total Reimbursements Received by Superintendent and Each Board Member | 14 |
| Exhibit B-3 | Compensation and/or Fees Received by the Superintendent from Outside Entities for Professional Consulting and/or Other Personal Services | 15 |
| Exhibit B-4 | Summary Schedule of Total Amount by Superintendent and Board Members (and First Degree Relatives) of Gifts that Had an Economic Value Exceeding \$250 in the Aggregate | 16 |
| Exhibit B-5 | Summary Schedule of Total Dollar Amount by Board Member of Business Transactions with the School District | 17 |

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September 22, 2008

To the Board of Trustees and Citizens of Arlington Independent School District,

Within these pages is Arlington ISD's 2008 Schools FIRST (Financial Integrity Rating System of Texas) rating and annual financial management report. The District received a Schools FIRST rating of "Superior Achievement" for 2008.

Background on the Financial Accountability Rating System

The 77th Legislature passed SB 218 in 2001 to authorize the implementation of a financial accountability rating system for Texas public school districts. The bill directed the Commissioner of Education to create a financial accountability rating system with input from the State Comptroller's Office. Schools FIRST is the name given to the rating system designed by the Commissioner. This is the sixth year that ratings have been assigned under the Schools FIRST system.

As detailed in the Texas Administrative Code ("TAC") Chapter 109 Subchapter AA, "the purpose of Schools FIRST 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 will also disclose the quality of local management and decision-making processes that impact the allocation of financial resources in Texas public schools."

Financial Accountability Ratings

Under the Schools FIRST system, the Texas Education Agency (TEA) assigns each school district one of four financial accountability ratings. The ratings are based on a district's overall performance on certain financial measurements, ratios, and other indicators established annually by the Commissioner of Education. The four ratings used with the system are as follows:

| SCHOOLS FIRST RATINGS |
|------------------------------|
| Superior Achievement |
| Above-Standard Achievement |
| Standard Achievement |
| Substandard Achievement |

Districts with serious data quality problems may receive the additional rating of “Suspended-Data Quality.” Districts that receive the “Substandard Achievement” or “Suspended-Data Quality” ratings under Schools FIRST must file a corrective action plan with the TEA.

The Commissioner of Education will evaluate the rating system annually and may modify the system in order to improve its effectiveness. Any changes made to the evaluation criteria will be communicated to school districts no later than May of each calendar year and will apply to the ratings issued for the following fiscal year.

School District Reporting Requirements

Reporting the Schools FIRST rating to the public is a key component of the Schools FIRST system. Each school district is required to prepare and make available an annual financial management report that presents the district’s performance on the current Schools FIRST indicators and a comparison with the previous year’s performance. A public hearing must be held on the annual financial management report to afford interested parties the opportunity to comment on the report. The public hearing must be held within two months after receipt of the final financial accountability rating.

2008 Schools FIRST Rating

The 2008 Schools FIRST ratings were based on an analysis of staff, student, and financial data submitted to the Texas Education Agency for the 2006-2007 school year and fiscal year. Twenty-four indicators were evaluated to determine the rating. This year’s evaluation matrix uses a new point system in place of the former evaluation that used questions structured to generate “yes” or “no” answers.

The Arlington Independent School District received the Schools FIRST rating of “Superior Achievement” for 2008. This is the same rating the District received in 2007. “Superior Achievement” is the highest Schools FIRST rating awarded by the State. The rating worksheet detailing the District’s performance on each of the twenty-four indicators can be reviewed at Exhibit A-1. Explanations of the twenty-four indicators can be found in Exhibit A-2.

This report also includes the following disclosures, as required by 19 TAC Chapter 109 Subchapter AA:

| | |
|-------------|--|
| Exhibit B-1 | Superintendent’s Current Employment Contract |
| Exhibit B-2 | Summary Schedule of Total Reimbursements Received by Superintendent and Each Board Member |
| Exhibit B-3 | Compensation and/or Fees Received by the Superintendent from Outside Entities for Professional Consulting and/or Other Personal Services |
| Exhibit B-4 | Summary Schedule of Total Amount by Superintendent and Board Members (and First Degree Relatives) of Gifts that Had an Economic Value Exceeding \$250 in the Aggregate |
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Contacting the District's Financial Management

This annual financial management report is presented in accordance with the provisions of Texas Education Code Section 39.201-39.204 and 19 TAC Chapter 109 Subchapter AA. If you have questions about the report or need additional financial information about the District, please contact the Finance Department, at Arlington Independent School District, 1203 W. Pioneer Parkway, Arlington, Texas, 76013. Additional financial information about the District, including the official budget and comprehensive annual financial report, can be found at the District's website at www.aisd.net.

Respectfully,

A handwritten signature in black ink, appearing to read "Jerry McCullough". The signature is fluid and cursive, with the first name "Jerry" written in a larger, more prominent script than the last name "McCullough".

Jerry McCullough
Interim Superintendent

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**Financial Integrity Rating System of Texas
2006-2007 DISTRICT STATUS DETAIL**

| | Name: Arlington ISD (220901) | | |
|----|--|---------------|---------------|
| | 2005-2006 Rating: Superior Achievement 2006-2007 Rating: Superior Achievement | | |
| # | Indicator Description | 2006-07 Score | 2005-06 Score |
| 1 | Was The Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund? | Yes | Yes |
| 2 | Was the Total Unrestricted Net Asset Balance (Net of Accretion of Interest on Capital Appreciation Bonds) In the Governmental Activities Column in the Statement of Net Assets Greater than Zero? (If the District's 5 Year % Change in Students was a 10% Increase or More then Answer Yes) | Yes | N/A |
| 3 | Were There No Disclosures In The Annual Financial Report And/Or Other Sources Of Information Concerning Default On Bonded Indebtedness Obligations? | Yes | Yes |
| 4 | Was The Annual Financial Report Filed Within One Month After November 27th or January 28th Deadline Depending Upon The District's Fiscal Year End Date (June 30th or August 31st)? | Yes | Yes |
| 5 | Was There An Unqualified Opinion in the Annual Financial Report? | Yes | Yes |
| 6 | Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls? | Yes | Yes |
| 7 | Did the Districts Academic Rating Exceed Academically Unacceptable? | 5 | N/A |
| 8 | Was The Three-Year Average Percent Of Total Tax Collections (Including Delinquent) Greater Than 98%? | 5 | N/A |
| 9 | Did The Comparison Of PEIMS Data To Like Information In Annual Financial Report Result In An Aggregate Variance Of Less Than 3 Percent Of Expenditures Per Fund Type (Data Quality Measure)? | 5 | N/A |
| 10 | Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) < \$250.00 Per Student? (If The District's Five-Year Percent Change In Students = Or > 7% increase or more, Or If Property Taxes Collected Per Penny Of Tax Effort > \$200,000 Per Student, then the District Receives 5 Points). | 5 | N/A |
| 11 | Was There No Disclosure In The Annual Audit Report Of Material Noncompliance? | 5 | Yes |
| 12 | Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g. No Conservator Or Monitor Assigned) | 5 | Yes |
| 13 | Was The Percent Of Operating Expenditures Expended For Instruction More Than 65%? (Functions 11, 36, 93, 95) (Phased in over three years, 55% for 2006-2007; 60% for 2007-2008; and 65% for 2008-2009) | 3 | N/A |
| 14 | Was The Percent Of Operating Expenditures Expended For Instruction More Than or equal to 65%? (Functions 11, 12, 31, 33, 36, 93, 95) | 3 | N/A |
| 15 | Was The Aggregate Of Budgeted Expenditures And Other Uses Less Than The Aggregate Of Total Revenues, Other Resources and Fund Balance In General Fund? | 5 | Yes |

| | | | |
|----|---|---|-----|
| 16 | If The District's Aggregate Fund Balance In The General Fund And Capital Projects Fund Was Less Than Zero, Were Construction Projects Adequately Financed? (To Avoid Creating Or Adding To The Fund Balance Deficit Situation) | 5 | Yes |
| 17 | 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 Net Delinquent Taxes Receivable, Then the District Receives 5 Points). | 5 | Yes |
| 18 | Was The Administrative Cost Ratio Less Than The Threshold Ratio? | 5 | Yes |
| 19 | Was The Ratio Of Students To Teachers Within the Ranges Shown Below According To District Size? | 5 | Yes |
| 20 | Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size? | 5 | Yes |
| 21 | Was The Total Fund Balance In The General Fund More Than 50% And Less Than 150% Of Optimum According To The Fund Balance And Cash Flow Calculation Worksheet In The Annual Financial Report? | 0 | Yes |
| 22 | Was The Decrease In Undesignated Unreserved Fund Balance < 20% Over Two Fiscal Years?(If 1.5 Times Optimum Fund Balance < Total Fund Balance In General Fund Or If Total Revenues > Operating Expenditures In The General Fund, Then District Receives 5 Points) | 5 | Yes |
| 23 | Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0? | 5 | Yes |
| 24 | Were Investment Earnings In All Funds (Excluding Debt Service Fund and Capital Projects Fund) More Than \$20 Per Student? | 4 | N/A |

DETERMINATION OF RATING

| | | |
|-----------|---|--------------------------------------|
| A. | Did The District Answer 'No' To Indicators 1, 2, 3 Or 4? OR Did The District Answer 'No' To Both 5 and 6? If So, The District's Rating Is Substandard Achievement . | |
| B. | Determine Rating By Applicable Range For summation of the indicator scores (Indicators 7-24) | |
| | Superior Achievement | 75-85 and Yes to indicator 7 |
| | Above Standard Achievement | 65-74 or >= 75 and No to indicator 7 |
| | Standard Achievement | 55-64 |
| | Substandard Achievement | <55 or No to one default indicator |

INDICATOR 19 & 20 RATIOS

| Indicator 19 | Ranges for Ratios | | Indicator 20 | Ranges for Ratios | |
|--|-------------------|------|--|-------------------|------|
| | Low | High | | Low | High |
| District Size - Number of Students Between | | | District Size - Number of Students Between | | |
| < 500 | 7 | 22 | < 500 | 5 | 14 |
| 500-999 | 10 | 22 | 500-999 | 5.8 | 14 |
| 1000-4999 | 11.5 | 22 | 1000-4999 | 6.3 | 14 |
| 5000-9999 | 13 | 22 | 5000-9999 | 6.8 | 14 |
| => 10000 | 13.5 | 22 | => 10000 | 7.0 | 14 |

N/A: Not Applicable in the 2005-06 evaluation.

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**SCHOOLS FIRST
EXPLANATIONS OF INDICATORS**

1. Was Total Fund Balance less Reserved Fund Balance greater than zero in the General Fund? (At Fiscal Year End)

School districts must legally have a fund balance to ensure adequate funding for operations. This indicator is designed to ensure that the district has a positive amount of fund balance (savings) that is not designated or “reserved” for a specific purpose.

2. Was the Total Unrestricted Net Asset Balance (Net of Accretion of Interest on Capital Appreciation Bonds) in the Governmental Activities column in the Statement of Net Assets greater than zero? (If the District’s five-year percent change in students was a 10% increase or more, then answer “Yes.”)

This indicator simply asks, “Did the district’s total assets exceed the total amount of liabilities (according to the first financial statement in the annual audit report)?” This indicator recognizes that high-growth districts incur large amounts of debt to fund construction, and that total debt may exceed the total amount of assets under certain scenarios.

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

This indicator seeks to verify that the district has paid its bill/obligations on bonds issued to pay for school construction, etc.

4. Was the Annual Financial Report filed within one month after November 27th or January 28th deadline depending upon the District’s fiscal year end date (June 30th or August 31st)?

A simple indicator. Was the Annual Financial Report filed with the Texas Education Agency prior to the deadline?

5. Was there an Unqualified Opinion in Annual Financial Report?

Did the district receive a clean audit? A “qualification” on the financial report means that the district needs to correct some of its reporting or financial controls. A district’s goal is to receive an “unqualified opinion” on its financial report.

6. Did the Annual Financial Report not disclose any instance(s) of material weaknesses in internal controls?

A clean audit of the district’s financial report would state that the district has no material weaknesses in internal controls. Internal control weaknesses create a risk that the district may not be able to properly account for its use of public funds, and should be immediately addressed.

7. Did the District’s Academic Rating exceed Academically Unacceptable?

The Texas Education Agency assigns each district an academic rating each year. The ratings are based on student performance, completion rates and dropout rates. The ratings are exemplary, recognized, acceptable and unacceptable.

8. Was the three-year Average Percent of Total Tax Collections (Including Delinquent Taxes) greater than 98%?

This indicator measures the district's success in collecting the taxes owed to it by the community's businesses and homeowners, using a 98% minimum collections standard. Collections of both current and delinquent taxes are included in this calculation.

9. Did the comparisons of PEIMS Data to like information in Annual Financial Report result in an aggregate variance of less than 3 percent of expenditures per fund type (Data Quality Measure)?

This indicator measures the quality of data reported to PEIMS and in the district's financial report to make certain that the data reported in each case matches. If the PEIMS data differs from the Annual Financial Report by more than 3% (per fund type), the district fails this indicator.

10. Were debt-related expenditures (net of IFA and/or EDA Allotment) less than \$250 per Student? If the District's five-year percent change in student enrollment was a 7% increase or more, or if property taxes collected per penny of tax effort were more than \$200,000, then the district receives 5 points.

This indicator shows the legislature's intent for school districts to spend money on education rather than facilities by limiting the amount of money districts should spend on debt to \$250 per student. By allowing a YES response for districts with enrollment growth exceeding 7% over the past five years, the Legislature acknowledges that fast growing district's will incur additional debt for facilities to accommodate their growth.

11. Was there no disclosure in the Annual Audit Report of material noncompliance?

NO disclosure means that the financial report includes no indication that the district failed to comply with laws, rules, or regulations for a government entity.

12. Did the District have full accreditation status in relation to financial management practices (e.g., No Conservator or Monitor assigned)?

Did the district maintain control of its own financial management by avoiding financial issues such as a fraud and having a negative fund balance? If so, the district passes the indicator.

13. Was the percent of operating expenditures expended for Instruction greater than or equal to 65%?

This indicator measures the district's ability to focus the majority of its funding to pay directly for student instruction. Only those services and items used in the classrooms, such as teacher salaries and classroom supplies, and co-curricular costs qualify as "Instruction" expenditures in this calculation (Function 11 and 36 expenditures). This indicator will be phased in over three years (55% for 2006-07, 60% for 2007-08 and 65% for 2008-09).

14. Was the percent of Operating Expenditures expended for Instruction more than 65%?

This indicator uses a broader definition of "Instruction" than indicator 13 above. In addition to direct classroom and co-curricular costs, this indicator defines instruction to also include library and media services, counseling, and health services expenditures. There is no phase-in period for this indicator.

**SCHOOLS FIRST
EXPLANATIONS OF INDICATORS**

15. 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 operate within its means, and avoid overspending its budget? A district receives a negative rating on this measure if its total expenditures and other uses for the fiscal year exceeded its total funds available.

16. 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 avoid over-spending on school buildings or other capital projects? This indicator measures the district's ability to construct facilities without damaging its fund balance.

17. 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 Net Delinquent Taxes Receivable, then the district receives 5 points.)

This indicator measures whether the district has sufficient cash and investments to balance fund balance monies such as TEA over-payments (deferred revenues). In other words, the district should have fund balance monies of its own that are greater than or equal to those dollars that are there due to over-payments from the TEA, and the district should not be spending next year's money this year.

18. Was the Administrative Cost Ratio less than the Threshold Ratio?

The TEA provides guidance on the percentage of the budget that districts can spend on administration. Did the district stay under the cap for districts of its size? The administrative cost ratio for districts with more than 10,000 students in average daily attendance is .1105.

19. Was the ratio of Students to Teachers within the ranges shown below according to district size?

This indicator measures the total pupil-teacher ratio (total students divided by total teachers) to ensure that it is within TEA-recommended ranges for the district's student population range. Districts with 10,000 or more students should have a total pupil-teacher ratio between 13.5:1 and 22:1.

| Indicator 19 District Size – No. of Students Between | Ranges for Ratios | |
|---|-------------------|------|
| | Low | High |
| <500 | 7 | 22 |
| 500 – 999 | 10 | 22 |
| 1,000 – 4,999 | 11.5 | 22 |
| 5,000 – 9,999 | 13 | 22 |
| => 10,000 | 13.5 | 22 |

**SCHOOLS FIRST
EXPLANATIONS OF INDICATORS**

20. Was the ratio of Students to Total Staff within the ranges shown below according to District size?

This indicator measures the total pupil-staff ratio (total students/total staff) to ensure that it is within TEA-recommended ranges for the district’s student population range. Districts with 10,000 or more students should have a total student-staff ratio between 7:1 and 14:1.

| Indicator 20 District Size – No. of Students Between | Ranges for Ratios | |
|--|-------------------|------|
| | Low | High |
| <500 | 5 | 14 |
| 500 – 999 | 5.8 | 14 |
| 1,000 – 4,999 | 6.3 | 14 |
| 5,000 – 9,999 | 6.8 | 14 |
| => 10,000 | 6.7 | 14 |

21. Was the total Fund Balance in the General Fund more than 50% and less than 150% of optimum according to the Fund Balance and Cash Flow Calculation Worksheet in the Annual Financial Report?

Statistical Table 22 in the district’s Annual Financial Report provides an optimum General Fund “Fund Balance” for the district. The district should have no less than one-half and no more than one and one-half times this amount in its Fund Balance, counting both reserved and unreserved fund balances.

22. Was the decrease in Undesignated Unreserved Fund Balance less than 20% over two fiscal years? (If 1.5 times Optimum Fund Balance is less than total fund balance in General Fund or if total Revenues exceeded Operating Expenditures in the General Fund, then answer this indicator “Yes.”)

Is the district using fund balance to pay for salaries or other district operating expenses? This indicator notes rapid decreases in undesignated Fund Balance (those dollars not designated or reserved for a specific purpose or emergency fund).

23. Was the aggregate of total of Cash and Investments in the General Fund more than \$0?

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

24. Were investment earnings in All Funds more than \$20 per student?

Is the district using its cash or reserve fund (Fund Balance) monies wisely (i.e., investing surplus funds until needed)?

**Arlington Independent School District
Superintendent's Current Employment Contract**

Subchapter AA of Chapter 109 of the Texas Administrative Code requires that Districts include in the Annual Financial Management Report a copy of the Superintendent's current employment contract. The Arlington ISD's Superintendent position was vacant at the date that the Annual Financial Management Report was issued; therefore, there was no superintendent contract to publish in the 2008 Annual Financial Management Report.

ARLINGTON INDEPENDENT SCHOOL DISTRICT
Summary Schedule of Total Reimbursements Received by Superintendent and Each Board Member
For the Twelve-Month Period Ended August 31, 2007

| Description of Reimbursements | Dr. Bernd Superintendent | Sherri Wade Board President | Jim Ash Board Vice President | Michael Glaspie Board Secretary | Erich Ramsey Board Asst. Sec. | Mike O'Donnell Board Member | Wayne Ogle Board Member | Gloria Pena Board Member | Totals |
|-------------------------------|--------------------------|-----------------------------|------------------------------|---------------------------------|-------------------------------|-----------------------------|-------------------------|--------------------------|-----------|
| Meals | 506.15 | 1,061.53 | 968.94 | 933.53 | 801.86 | 1,089.53 | 1,077.53 | 1,089.49 | 7,528.56 |
| Lodging | 743.40 | 706.21 | 0.00 | 365.48 | 0.00 | 879.00 | 879.00 | 696.26 | 4,269.35 |
| Transportation | 1,289.70 | 670.05 | 539.20 | 518.08 | 229.70 | 911.39 | 833.94 | 842.19 | 5,834.25 |
| Motor Fuel | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 1,315.00 | 917.00 | 0.00 | 962.73 | 50.00 | 973.46 | 977.00 | 952.00 | 6,147.19 |
| Totals | 3,854.25 | 3,354.79 | 1,508.14 | 2,779.82 | 1,081.56 | 3,853.38 | 3,767.47 | 3,579.94 | 23,779.35 |

Note - The schedule above reflects total reimbursements paid to and expenditures paid on behalf of the Superintendent and each Board member. The expenditures were incurred for travel and other functions directly related to official school district business.

ARLINGTON INDEPENDENT SCHOOL DISTRICT
Compensation and/or Fees Received by the Superintendent from
Outside Entities for Professional Consulting and/or Other Personal Services
For the Twelve-Month Period Ended August 31, 2007

| Name of Entity | Amount Received |
|---------------------------------|-----------------|
| Law Office of Kurt Wolfgram, PC | \$450 |
| Total | \$450 |

Note - The information presented above was reported to the District by the Superintendent.

ARLINGTON INDEPENDENT SCHOOL DISTRICT
Summary Schedule of Total Amount by Superintendent and Board Members (and First Degree Relatives)
of Gifts that had an Economic Value Exceeding \$250 in the Aggregate
For the Twelve-Month Period Ended August 31, 2007

| | Dr. Bernd Superintendent | Sherrri Wade Board President | Jim Ash Board Vice President | Michael Glaspie Board Secretary | Erich Ramsey Board Asst. Sec. | Mike O'Donnell Board Member | Wayne Ogle Board Member | Gloria Pena Board Member |
|--------------------|-------------------------------------|---|---|--|--|--|------------------------------------|-------------------------------------|
| Total Value | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |

Note - The information presented above was reported to the District by the Superintendent and each individual Board member.

ARLINGTON INDEPENDENT SCHOOL DISTRICT
Summary Schedule of Total Dollar Amount by Board Member of Business Transactions With School District
For the Twelve-Month Period Ended August 31, 2007

| | Sherri Wade Board President | Jim Ash Board Vice President | Michael Glaspie Board Secretary | Erich Ramsey Board Asst. Sec. | Mike O'Donnell Board Member | Wayne Ogle Board Member | Gloria Pena Board Member |
|---------------------|--|---|--|--|--|------------------------------------|-------------------------------------|
| Total Amount | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |