



## Contents

- [Notice and Hearing](#) (including Sample Notice)
- [Sample Agenda Items](#)
- [How Ratings are Assessed](#)
- [Disclosures](#)
- [Glossary](#)

## Notice and Hearing

Texas Education Code (TEC) [section 39.082](#) requires the Commissioner of Education to implement a financial accountability system for school districts and open-enrollment charter schools (OECS). The system—the Financial Integrity Rating System of Texas (FIRST)—is set out in [19 Texas Administrative Code \(TAC\) 109.1001](#). In addition to prescribing the indicators on which a charter school’s financial accountability rating is based, the rule imposes reporting and hearing requirements. Those are discussed below. More information is available on TEA’s [FIRST website](#). [Charter schools operated by public institutions of higher education (IHE) are subject to ratings and similar reporting requirements; any differences in those requirements from those for OECS are not discussed in this resource.]

## Reporting Your Charter School’s Financial Accountability Rating

Under Charter FIRST, every Texas charter school is required to prepare and distribute an annual financial management report that includes the following:

- A. The charter school’s financial management performance rating

provided by the Texas Education Agency (TEA) based on its comparison with indicators established by the commissioner for the state’s financial accountability rating system.

- B. The charter school’s financial management performance under each indicator for the current and previous years’ financial accountability ratings.
- C. Additional information required by the commissioner under 19 TAC 109.1001(q), including the following:
1. A copy of the **superintendent’s current employment contract**, including compensation and benefits. The charter school may publish the superintendent’s employment contract on the school’s website instead of publication in the annual financial management report;
  2. A summary schedule for the fiscal year (12-month period) of **total reimbursements received by the superintendent and each board member**, including transactions on the charter school’s credit or debit card(s), store-value card(s) and any other instruments to cover expenses incurred by the superintendent and each board member. The summary schedule must separately report reimbursements for meals, lodging, transportation, motor fuel, and other items; the summary schedule of total reimbursements should not include reimbursements for supplies and materials that were purchased for the operation of the school;
  3. A summary schedule for the fiscal year of the dollar amount of



**compensation and/or fees received by the superintendent from another school or other outside entity in exchange for professional consulting or other personal services.** The schedule must separately report the amount received from each entity;

4. A summary schedule for the fiscal year of **the total dollar amount of gifts with an economic value of \$250 or more received by the executive officers and board members.** This reporting requirement only applies to gifts received by the charter school's (or charter holder's) executive officers and board members (and their immediate family as described by Government Code, Chapter 573, Subchapter B, Relationships by Consanguinity or by Affinity) from an outside entity that received payments from the charter school or charter holder in the prior fiscal year, and gifts from competing vendors that were not awarded contracts in the prior fiscal year. This reporting requirement **does not apply** to reimbursement of travel-related expenses by an outside entity when the purpose of the travel is to investigate or explore matters directly related to the duties of an executive officer or board member, or matters related to attendance at education-related conferences and seminars with the primary purpose of providing continuing education (**this exclusion does not apply to trips for entertainment related purposes or pleasure trips**). This

reporting requirement excludes an individual gift or a series of gifts from a single outside entity that had a total economic value of less than \$250 per executive officer or board member;

5. A summary schedule for the fiscal year of the **dollar amount received by board members for the total amount of business transactions with the charter school or charter holder.** This reporting requirement does not duplicate the items disclosed in the summary schedule of reimbursements received by board members; and
6. Additional information that the charter school's board of trustees deems useful.

**Templates for reporting the required disclosures are available later in this toolkit at Disclosures or on TEA's [FIRST website](#).**

## **Public Hearing on Your Charter School's Financial Report and Rating**

Within two months after receiving the final financial accountability rating, the board of each charter school must hold a public hearing on the annual financial management report at a charter school facility.

The board must give notice of the hearing to owners of real property in the geographic boundaries of the charter school and to parents of charter school students. In addition to other notice required by law, the board must provide notice of the hearing:



- A. to a newspaper of general circulation in the geographic boundaries each campus of the charter school in one posting prior to holding the public meeting, providing the time and place of the hearing. The notice in the newspaper may not be earlier than 30 days or later than 10 days before the date of the hearing. If no newspaper is published within the geographic boundaries of a charter school campus, then the board must publish the notice in the county nearest to the county seat of the county in which the charter school campus is located; and
- B. through electronic mail to the mass communication media serving the charter school, including, but not limited to, radio and television.

At the hearing, the charter school must provide the annual financial management report to the attending parents and taxpayers. The school must retain the report for at least three years after the hearing and make it available to parents and taxpayers on request.

### Sample Notice

## NOTICE OF PUBLIC HEARING TO DISCUSS \_\_\_\_\_ CHARTER SCHOOL'S STATE FINANCIAL ACCOUNTABILITY RATING

\_\_\_\_\_ Charter School will hold a public hearing at [TIME, DATE] in the [ROOM, BUILDING, ADDRESS, CITY].

The purpose of this hearing is to discuss \_\_\_\_\_ Charter School's rating under the state's financial accountability system.

### Sample Agenda Items

You may incorporate the items below into your usual board meeting agenda/notice format. The board may combine the meeting with a regularly scheduled board meeting.

- A. Overview of Charter FIRST (Financial Integrity Rating System of Texas)
- B. \_\_\_\_\_ Charter School's rating
- C. Public Comments on the Report



## How Ratings are Assessed

Preliminary ratings are released by TEA every calendar year on or before August 8. The commissioner's rules for FIRST are contained in 19 TAC 109.1001. The rules include an attached figure (rating worksheet) for each rating year that specifies the rating indicators for that year.

The questions an OECS must address in completing the worksheet used to assess its financial management system can be confusing to non-accountants. The indicators for **rating year 2023-2024 based on fiscal year 2022 financial data** are set out below with an explanation of what the questions mean—and what your OECS's answers can mean to its rating.

**1. Was the complete annual financial report (AFR) and charter school financial data submitted to TEA within 30 days of the November 27 or January 28 deadline depending on the charter school's fiscal year end date of June 30 or August 31, respectively?**

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

**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.)**

Review the AFR for an unmodified

opinion and material weaknesses.

**3. Was the charter school in compliance with the payment terms of all debt agreements at fiscal year end? (If the charter school was in default in a prior fiscal year, an exemption applies in following years if the charter school 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.)**

This indicator seeks to confirm that your school has timely paid all bills/obligations, including financing arrangements to pay for school construction, school buses, photocopiers, etc.

**4. Did the charter school make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? If the charter school received a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the charter school**



**is considered to not have made timely payments and will fail this indicator. If the charter school was issued a warrant hold, the maximum points and highest rating the school may receive is 95 points, A = Superior Achievement (even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days).**

This indicator seeks to confirm the school 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.

**5. Was the total net balance in the Statement of Financial Position greater than zero? (If the charter school's increase of students in membership over 5 years was 7 percent or more, then the charter school passes this indicator.) (New charter schools that have a negative asset balance will pass this indicator if they have an average of 7 percent growth in students year over year until it completes its fifth year of operations. After the fifth year of operations, the calculation changes to the 7 percent increase in 5 years.) (If the charter school passes indicator 5 based only on the charter school's 7 percent or more increase in students in membership, the maximum points and highest rating the charter school may receive is 79 points, C = Meets Standard Achievement.)**

This indicator simply asks, "Did the total assets exceed the total amount of liabilities (according to the very first financial statement in the annual audit report)?" Fortunately, this indicator recognizes that high-growth schools incur larger amounts of debt to fund construction, and that total debt may exceed the total amount of assets under certain scenarios.

**6. Was the average change in total net assets over 3 years less than a 25% decrease or did the current year total net asset balance exceed 75 days of operational expenditures [(total expenditures less depreciation) /365]\*75 days? (If the charter school fails indicator 6, the maximum points and highest rating the charter school may receive is 89 points, B = Above Standard Achievement.)**

This indicator measures the percentage change in fund balance to see whether the fund balance is declining too quickly, and if it is declining, whether sufficient fund balance remains to operate for at least 75 days.

**7. Was the number of days of cash on hand and current investments in the general fund for the charter school sufficient to cover operating expenditures? The calculation will use expenses, excluding depreciation.**

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



least 60 days must be covered to receive the maximum points.

**8. 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 charter school had sufficient short-term assets at the end of the fiscal year to pay off its short-term liabilities. Did you meet or exceed the target amount in Charter FIRST?

**9. Did the charter school's revenues equal or exceed expenditures (excluding depreciation)? If not, was the school's number of days of cash on hand greater than or equal to 40 days? The calculation will use expenses, excluding depreciation. For government charter schools, pension expense will be excluded.**

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 40 days cash on hand.)

**10. Did the charter school average less than a 10 percent variance (90% to 110%) when comparing budgeted revenues to actual revenues for the last 3 fiscal years?**

This indicator continues to be paused for the 2023-24 rating period.

**11. Was the ratio of long-term liabilities to total assets for the charter school sufficient to support long-term solvency? (If the charter school's increase of students in**

**membership over 5 years was 7 percent or more, then the charter school passes this indicator.) (New charter schools that have a negative net asset balance will pass this indicator if they have an average of 7 percent growth in students year over year until it completes its fifth year of operations. After the fifth year of operations, the calculation changes to the 7 percent increase in 5 years.)**

This question is like asking if a person's mortgage exceeds the market value of their home. Were you below the cap for this ratio in Charter FIRST? Fortunately, this indicator recognizes that high-growth districts incur additional operating costs to open new instructional campuses.

**12. 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. Did you meet or exceed the target amount in Charter FIRST?

**13. Did the charter school have a debt-to-capitalization percentage that was reasonable for the charter school to continue operating?**

This indicator measures whether the school's total net assets were sufficient to cover long term liabilities.

**14. Was the charter school's administrative cost ratio equal to or less than the threshold ratio?**

This indicator measures the percentage



of their budget that Texas charter schools spent on administration. Did you exceed the cap in Charter FIRST for schools of your size?

**15. Did the charter school *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 charter school will automatically pass this indicator.)**

If a decline in student enrollment is occurring, this indicator measures if the decline in total staff is in proportion to the declining enrollment over a 3-year period. If declining enrollment is occurring, the change in this ratio cannot exceed 15 percent.

**16. Was the charter school's ADA within 10% of the charter school's annual estimated ADA?**

This indicator continues to be paused for the 2023-24 rating period.

**17. Did the comparison of Public Education Information Management System (PEIMS) data to like information in the charter school's AFR result in a total variance of less than 3 percent of all expenses by function? (If the charter school fails this indicator, the maximum points and highest rating the school may receive is 89 points, B = Above Standard Achievement.)**

This indicator measures the quality of data reported to PEIMS and in your Annual Financial Report to ensure that

the data reported in each case “matches up.” If the difference in numbers reported in any fund type is 3 percent or more, your district “fails” this measure.

**18. 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, federal funds and free from substantial doubt about the school district's ability to continue as a going concern? (The AICPA defines material weakness.) (If the charter school district fails this indicator, the maximum points and highest rating the district may receive is 79 points, C = Meets Standard Achievement.)**

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

**19. 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.)**

This indicator measures whether the district is complying with laws, rules and regulations related to the expenditure of grant funds, contracts, and other state and federal funds.



**20. Did the charter school post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the charter school's fiscal year end?**

This indicator measures whether the school is complying with legal requirements related to financial transparency by posting all required information.

**21. Did the charter school receive an adjusted repayment schedule for more than one fiscal year for an over-allocation of Foundation School Program (FSP) funds because of a financial hardship? (If the charter school fails this indicator, the maximum points and highest rating the school district may receive is 70 points, C = Meets Standard Achievement.)**

This indicator determines if the district has an adjusted repayment schedule for an overallocation of FSP funds.





## Disclosures

Reporting requirements for the financial management report for the Charter FIRST public hearing are found in **Title 19 Texas Administrative Code Chapter 109, Budgeting, Accounting, and Auditing, Subchapter AA, Commissioner's Rules Concerning Financial Accountability Rating System, Section 109.1001(q)**. This rule prescribes requirements for the six disclosures described below that are included in the Charter FIRST financial management report.

### 1. Superintendent's Employment Contract

The charter school must provide a copy of the superintendent's current employment contract that is effective on the date of the Charter FIRST hearing. In lieu of publication in the Charter FIRST financial management report, the charter school may publish the superintendent's employment contract on the school district's website. If published on the school's website, the contract is to remain accessible for twelve months.



## 2. Reimbursements Received by the Superintendent and Board Members for Fiscal Year 202X

For the Twelve-month Period Ended June 30, or August 31, 202X								
Description of Reimbursements	Superintendent	Board Member 1	Board Member 2	Board Member 3	Board Member 4	Board Member 5	Board Member 6	Board Member 7
Meals	\$	\$	\$	\$	\$	\$	\$	\$
Lodging								
Transportation								
Motor Fuel								
Other								
Total	\$	\$	\$	\$	\$	\$	\$	\$

**Note:** The spirit of the rule is to capture all “reimbursements” for the fiscal year, regardless of the manner of payment, including direct pay, credit card, cash, and purchase order. Reimbursements are to be reported per category:

- **Meals** – Meals consumed out of town and in-district at area restaurants (excludes catered meals for board meetings).
- **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 to (or on-behalf of) the superintendent and board members not defined above.



**3. Outside Compensation and/or Fees Received by the Superintendent for Professional Consulting and/or Other Personal Services in Fiscal Year 202X**

For the Twelve-Month Period Ended June 30, or August 31, 202X	
Name of Entity	Amount
	\$
<b>Total</b>	<b>\$</b>

**Note:** Compensation does not include revenues generated from a family business (farming, ranching, etc.) that has no relation to school business.

**4. Gifts Received by the Executive Officer(s) and Board Members (and First-Degree Relatives, if any) in Fiscal Year 202X (with a total economic value of \$250 or more)**

For the Twelve-Month Period Ended June 30, or August 31, 202X								
	Superintendent	Board Member 1	Board Member 2	Board Member 3	Board Member 4	Board Member 5	Board Member 6	Board Member 7
Summary Amounts	\$	\$	\$	\$	\$	\$	\$	\$

**Note:** An executive officer is defined as the superintendent, unless the board of trustees or the school administration names additional staff under this classification. Gifts received by first degree relatives, if any, will be reported under the applicable school official.



**5. Business Transactions Between Charter School and Board Members for Fiscal Year 202X**

For the Twelve-Month Period Ended June 30, or August 31, 202X							
	Board Member 1	Board Member 2	Board Member 3	Board Member 4	Board Member 5	Board Member 6	Board Member 7
Summary Amounts	\$	\$	\$	\$	\$	\$	\$

**Note:** The summary amounts reported under this disclosure do not duplicate the items reported in the summary schedule of reimbursements received by board members.

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



## Glossary

**Annual Financial Report (AFR):** The audited annual report required by TEC section 44.008, that is due to TEA by no later than 150 days after the close of a school district's or an open-enrollment charter school's fiscal year.

**Ceiling indicator:** An upper limit (the maximum score) at which a score from a standard limit of a specific indicator will result regardless of overall points.

**Debt:** An amount of money owed to a person, bank, company, or other organization.

**Electronic submission:** The TEA electronic data feed format required for use by school districts, open-enrollment charter schools, and regional education service centers (ESCs).

**Financial Integrity Rating System of Texas (FIRST):** The financial accountability rating system administered by the TEA in accordance with the TEC sections 39.082 and 39.085. The system provides additional transparency to public education finance and meaningful financial oversight and improvement for school districts (School FIRST) and open-enrollment charter schools and charter schools operated by a public institution of higher education under TEC, Chapter 12, Subchapters D and E (Charter FIRST).

**Fiscal Year:** The fiscal year of a school district or an open-enrollment charter school, which begins on July 1 or September 1 of each year, as determined by the board of trustees of the district or the governing body of the

charter holder in accordance with the TEC, §44.0011.

**Foundation School Program (FSP):** The program established under the TEC, Chapters 46, 48, and 49 or any successor program of state-appropriated funding for school districts in this state.

**Summary of Finances (SOF) report:** The document of record for FSP allocations. An SOF report is produced for each school district and open-enrollment charter school by the TEA division responsible for state funding that describes the school district's or open-enrollment charter school's funding elements and FSP state aid.

**Texas Student Data System Public Education Information Management System (TSDS PEIMS):** The system that school districts and open-enrollment charter schools use to load, validate, and submit their data to the TEA.

**Warrant hold:** The process by which state payments issued to payees indebted to the state, or payees with a tax delinquency, are held by the Texas Comptroller of Public Accounts until the debt is satisfied in accordance with the Texas Government Code section 403.055

*The information in this resource is provided for educational purposes to facilitate a general understanding of the law. This information is neither an exhaustive treatment on the subject nor is it intended to substitute for the advice of an attorney or other professional advisor. Consult your attorney or professional advisor to apply these principles to specific fact situations.*

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