

**Annual Financial Accountability  
Management Report**

**For the Year Ending August 31, 2004**



**CLEAR CREEK  
INDEPENDENT SCHOOL DISTRICT**

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**EDUCATE ★ EQUIP ★ EXCEL**

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**Dr. Sandra Mossman, Superintendent of Schools  
Paul McLarty, Chief Financial Officer  
Jeff Kohlenberg, RTSBA, CPA, Director of Finance**

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**Introduction**

During the 77<sup>th</sup> regular session of the Texas legislature (2001), Senate Bill 218 was passed and Governor Perry signed it into law shortly thereafter. This law requires each school district to prepare an annual financial accountability report within two months of the date of issuance of the final School FIRST ratings. The District's received official notification of the 2005 Final School FIRST rating on August 5, 2005 for the 2003-2004 fiscal year.

Many business-related issues are covered in this report. The primary reporting tool, however, is the Financial Accountability Ratings Worksheet. This worksheet was developed by representatives of the Texas Education Agency (TEA), the Texas Business & Education Council (TBEC) and the Texas Association of School Business Officials (TASBO). It will be administered by the TEA and calculated on information submitted to the Agency via our PEIMS submission each year. PEIMS data has always been critical on the student side of the submission, and this project will add a great degree of importance to our finance submission each year.

The worksheet consists of 21 Indicators, each weighted equally with the exception of the Critical Indicators. A "No" response in Indicators #1, #2 or #3 or to #4 and #5 together automatically result in a rating of Substandard Achievement, so these first five Indicators are of utmost importance.

Currently, Clear Creek ISD enjoys a rating of "***Superior Achievement***", scoring a 21 out of a possible 21 on the financial accountability worksheet. The worksheet itself and a discussion of its salient points follow.

**Financial Integrity Rating System of Texas**

**2003-2004 DISTRICT STATUS**

<b>Name: CLEAR CREEK ISD(084910)</b>			
<b>Rating:</b> Superior Achievement		<b>Last Updated:</b> 8/5/2005 3:29:59 PM	
<b>Indicators Answered YES:</b> 21		<b>Indicators Answered NO:</b> 0	
#	Indicator Description	Updated	Result
1	<u>Was The Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund?</u>	5/22/2005 8:20:44 PM	Yes
2	<u>Were There No Disclosures In The Annual Financial Report And/Or Other Sources Of Information Concerning Default On Bonded Indebtedness Obligations?</u>	5/22/2005 8:20:44 PM	Yes
3	<u>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)?</u>	5/22/2005 8:20:45 PM	Yes
4	<u>Was There An Unqualified Opinion in Annual Financial Report?</u>	5/22/2005 8:20:45 PM	Yes
5	<u>Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?</u>	5/22/2005 8:20:45 PM	Yes
6	<u>Was The Percent Of Total Tax Collections (Including Delinquent) Greater Than 96%?</u>	5/22/2005 8:20:45 PM	Yes
7	<u>Did The Comparisons Of PEIMS Data To Like Information In Annual Financial Report Result In An Aggregate Variance Of Less Than 4 Percent Of Expenditures Per Fund Type (Data Quality Measure)?</u>	5/22/2005 8:20:46 PM	Yes
8	<u>Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) &lt; \$770.00 Per Student? (If The District's Five-Year Percent Change In Students = Or &gt; 2%, Or If Property Taxes Collected Per Penny Of Tax Effort &gt; \$100,000, Then Answer This Indicator Yes)</u>	5/22/2005 8:20:47 PM	Yes

9	<u>Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?</u>	5/22/2005 8:20:47 PM	Yes
10	<u>Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g. No Master Or Monitor Assigned)</u>	5/22/2005 8:20:47 PM	Yes
11	<u>Was The Percent Of Operating Expenditures Expended For Instruction More Than 54%?</u>	5/22/2005 8:20:48 PM	Yes
12	<u>Was The Aggregate Of Budgeted Expenditures And Other Uses Less Than The Aggregate Of Total Revenues, Other Resources and Fund Balance In General Fund?</u>	5/22/2005 8:20:49 PM	Yes
13	<u>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)</u>	5/22/2005 8:20:50 PM	Yes
14	<u>Was The Ratio Of Cash And Investments To Deferred Revenues (Excluding Amount Equal To Net Delinquent Taxes Receivables) In The General Fund = Or &gt; 1:1? (If Deferred Revenues &lt; Net Delinquent Taxes Receivable, Then Answer This Indicator Yes)</u>	5/22/2005 8:20:50 PM	Yes
15	<u>Was The Administrative Cost Ratio Less Than The Standard In State Law?</u>	5/22/2005 8:20:50 PM	Yes
16	<u>Was The Ratio Of Students To Teachers Within the Ranges Shown Below According To District Size?</u>	5/22/2005 8:20:51 PM	Yes
17	<u>Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size?</u>	5/22/2005 8:20:51 PM	Yes
18	<u>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?</u>	5/22/2005 8:20:52 PM	Yes
19	<u>Was The Decrease In Undesignated Unreserved Fund Balance &lt; 20% Over Two Fiscal Years?(If 1.5 Times Optimum Fund Balance &lt; Total Fund Balance In General Fund Or If Total Revenues &gt;</u>	5/22/2005 8:20:53 PM	Yes

	<u>Operating Expenditures In The General Fund, Then Answer This Indicator Yes)</u>		
20	<u>Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?</u>	5/22/2005 8:20:53 PM	Yes
21	<u>Were Investment Earnings In All Funds More Than \$15 Per Student?</u>	5/22/2005 8:20:53 PM	Yes

## DETERMINATION OF RATING

<b>A.</b>	Did The District Answer <b>No</b> To Indicators 1, 2, Or 3? Or Did The District Answer No To Both 4 and 5? If Answered <b>No</b> To Either, The District's Rating Is <b>Substandard Achievement</b> .								
<b>B.</b>	Determine Rating By Applicable Range For The Number Of Indicators Answered <b>No</b> :								
	<table border="1"> <tr> <td><b>Superior Achievement</b></td> <td>0-2</td> </tr> <tr> <td><b>Above Standard Achievement</b></td> <td>3-4</td> </tr> <tr> <td><b>Standard Achievement</b></td> <td>5-6</td> </tr> <tr> <td><b>Substandard Achievement</b></td> <td>7+ Or <b>No</b> To One Default Indicator</td> </tr> </table>	<b>Superior Achievement</b>	0-2	<b>Above Standard Achievement</b>	3-4	<b>Standard Achievement</b>	5-6	<b>Substandard Achievement</b>	7+ Or <b>No</b> To One Default Indicator
<b>Superior Achievement</b>	0-2								
<b>Above Standard Achievement</b>	3-4								
<b>Standard Achievement</b>	5-6								
<b>Substandard Achievement</b>	7+ Or <b>No</b> To One Default Indicator								

## INDICATOR 16 & 17 RATIOS

Indicator 16	Ranges for Ratios		Indicator 17	Ranges for Ratios	
	Low	High		Low	High
District Size - Number of Students Between			District Size - Number of Students Between		
< 500	7	22	< 500	4	14
500-999	10	22	500-999	5.5	14
1000-4999	11.5	22	1000-4999	6	14
5000-9999	13	22	5000-9999	6.5	14
=> 10000	13.5	22	=> 10000	6.6	14

## **Overview of the Worksheet**

### **Critical Indicators**

Indicators #1 through #5 are the critical indicators. Any “NO” response in this category is a signal indicator of fiscal distress. These five indicators revolve around the audit report, fund balance and the auditor’s findings. If General Fund Balance is greater than zero and the auditors issue a “clean” opinion, a District will pass the critical indicators. For the 2003-04 fiscal year, Clear Creek ISD had a General Fund Balance of \$45.7 million and passed all other critical indicators.

### **Fiscal Responsibility**

Indicators #6 through #10 concern fiscal responsibility. Clear Creek ISD’s percentage of tax collections easily exceeds the minimum standard of 96.0% required in Indicator #6. For the year under review, taxes were collected at a rate of 99.9%. The District passed Indicator #7 which required that the District’s PEIMS financial data submission agree to the Annual Financial Report. The District also passed Indicator #8 due to taxes collected per penny of tax effort exceeding \$100,000. Indicators #9 and #10 are very similar to the Critical Indicators, and Clear Creek easily passed these two on audit and full financial accreditation status.

### **Budgeting**

Indicators #11 through #14 concern budgeting, management and cash flow practices. The District expends slightly more than 60% of its operating expenditures for direct classroom instruction, which is beyond the 54% required in Indicator #11. The District adequately funds its budget and capital projects. Most importantly, as addressed in Indicator #14, the District does not spend cash it cannot afford to spend or cannot recognize as revenue.

### **Personnel**

Indicators #15 through #17 address staffing patterns. For the 2003-04 year, the District’s administrative cost ratio was well below that of the State standard of 11.05% at 6.83%. This item is addressed in more detail later in the report. Indicators #16 and #17 deal with staffing patterns, specifically students to classroom teachers and students to total staff. A District must fall into a certain range to meet these indicators, which means understaffing or overstaffing can trigger a “NO” response. The District falls safely within the prescribed ranges for each indicator at 16.4 students per classroom teacher and 9.0 students per staff member.

## **Cash Management**

The final four indicators deal with cash management practices. Indicator #18 concerns the fund balance figure and whether it is too high or low. Clear Creek's General Fund Balance for the 2003-04 year was within the allowable range permitted by this indicator. Indicator #19 deals with any decrease in General Fund Balance over two years. Since our undesignated unreserved fund balance increased each of the two years, we easily met this indicator. Cash and Investments were greater than \$0, so Indicator #20 was easily surpassed, and investment earnings were approximately \$64 per student, exceeding the minimum standard of \$15 per student set forth in Indicator #21.

## **Summary**

The Clear Creek ISD School Board, administration and the community have worked hard to improve the financial position and condition of the District over the past several years. This report demonstrates this improvement to all concerned.

## **Other Data Concerning the District's Operations**

The purpose of this section of the report is to discuss other aspects of our business operations not covered by the worksheet, but suggested by law as indicators of significance meriting discussion. We should view the worksheet as a good basic tool with which to assess our primary business practices. However, we should not stop there. We should always be working towards improvement in all aspects of our operation to maximize funds available to campuses for educational purposes and to our ancillary departments that support our campuses.

Below is a review of several business practices not covered by the Financial Accountability Worksheet directly.

## **Financial Strength**

The state of Texas recommends that we discuss financial strength in this report. This is a difficult topic to address because there are many measures of financial strength, some are better than others, and it's hard to tell which one is the best measure. For Clear Creek ISD, we believe the most significant financial indicator of strength is our ability to gradually increase our undesignated unreserved fund balance to a level where we do not have to borrow funds to cover operating shortfalls during September through December of each fiscal year. Over the last eight years, we have been able to increase our undesignated unreserved fund balance from \$9.7 million to \$39 million. At this time, our fund balance is at a sufficient level to cover any cash flow deficits due to the timing of property tax collections.



## Operating Cost Management

Only a small portion of our total General Fund expenditures is flexible or variable in nature. Salaries and benefits comprise approximately 84.7% of the budget each year. Utility payments fluctuate from year to year, but comprise approximately 3.8% of the budget. Property insurance and appraisal district fees comprise an additional 1.6% of the budget. These four items alone account for approximately 90% of the District's operating budget each year. Once you remove these four large expenditures from the operating budget, you are left with only a small portion of the budget that covers all other expenditures of the District. The chart below illustrates the breakdown of the operating budget:

Instruction and Related Services	64.1%
Facilities Maintenance & Upkeep	11.3%
Campus Administration	5.8%
Student Transportation	4.0%
General Administration	3.3%
Guidance and Counseling Services	3.2%
Extracurricular & Cocurricular	2.1%
Data Services	2.0%
Other	1.8%
Instructional Administration	1.3%
Health Services	1.1%

One measure the state of Texas uses to measure operating cost efficiency is the administrative cost ratio. Texas has a formula that is mandated by law. Simply, it takes administrative costs and divides them by instructional costs to arrive at a percentage. A district's size determines their administrative cost limitation. Based on Clear Creek ISD's size, our administrative cost limit has been 11.05%. This criterion is covered in the worksheet for last year only, but since it deals with the sensitive issue of administrative costs, we felt it prudent to demonstrate how our ratio has actually remained low over the past several years.

<b>Administrative Cost Comparison</b>			
Year	State Limit	District Actual	Amount Under Limit
1999-00	11.05%	6.88%	\$ 3,854,174
2000-01	11.05%	7.09%	\$ 3,935,405
2001-02	11.05%	6.70%	\$ 4,584,523
2002-03	11.05%	6.61%	\$ 5,017,639
2003-04	11.05%	6.83%	\$ 4,870,715

In a time of rising salaries and increased costs, Clear Creek ISD has been able to maintain administrative costs as a percentage of instructional costs at a low and constant rate. We have done so via a conscious and concerted effort to funnel every possible dollar to the campuses to serve the needs of the students first. This chart, more than any other indicator, clearly demonstrates that we are putting our money into educating our students, which is our #1 priority.

## **Personnel Management**

The District's longstanding personnel goal is to attract and retain qualified staff, and to offer a competitive salary and benefit package to all employees. Each year, we have offered a competitive total compensation package to our teaching staff. It hasn't always been easy to do so, but we have managed to find the funding to fit this total benefit package into our budget. Second only to our students' welfare and education, attracting and retaining a quality teaching staff has been a priority for Clear Creek ISD.

## **Debt Management**

The taxpayers of the District authorized a \$162 million bond program in February 2000. All of the bonds from the 2000 authorization have been issued. We have worked diligently to schedule bond maturities and interest payments to smooth out their impact on our tax rate as well as to match the useful life of the work they allowed us to perform. All of the 2000 bonds have been amortized over 20 years, which should be equal to or less than the useful life of the renovations performed and new facilities we built with them. At the time that these bonds were passed, it was estimated that the debt service tax rate would increase 14 cents over three years from 18.653 cents to 32.653 cents per hundred dollars of valuation. Due to debt restructuring and property value increases we were able to hold the increase to 6 cents and then began to decrease the rate.

On February 7, 2004 the taxpayers of the District authorized a \$264 million bond program to build four new schools, make campus additions and capital improvements, acquire instructional resources and to make land acquisitions for current and future needs. At the time that these bonds were passed, it was estimated that the debt service tax rate would increase a total of 6 cents in years one and two. Due to further debt restructuring and property value increases we were able to hold the increase to 4.5 cents.

Debt management is easier if local taxes are collected at a high collections rate consistently over the years. One of the worksheet indicators deals with this issue. Clear Creek's collection rates for the past seven years have consistently exceeded 99.5%.

## **Cash Management**

The worksheet addresses a couple of cash and investment issues, but only in a very basic manner. The worksheet indicators essentially require that a District have cash available and that a minimal rate of return is earned. In truth, our investment and cash management program is much more complex.

First, we have a state and local board policy that requires us to invest funds with six objectives in mind. In order of importance, they are: suitability, safety, liquidity, marketability, diversity and yield. State and local policy specify what types of securities we can purchase. We do not purchase investments that fall outside these policy restrictions.

There are a few investments that are legal for us to purchase, but they aren't very marketable. Consequently, we don't buy them. We strive to maintain diversity in our portfolio, balancing cash in money market pools and directly owned securities such as Treasury Bills and other government agency issues.

Also, we benchmark our portfolio's yield each month to the three and six month Treasury Bill rates, the Federal Funds rate and the Jumbo CD rate. We use these as a comparison only to determine if our portfolio is yielding a comparable market rate of return each month. A monthly Cash & Investment Report is included in each month's Board of Trustees meeting agenda for review and approval.

### **Tax Collections**

Indicator #6 discusses tax collections for the year under review. As important as this indicator is from year to year, we felt additional discussion was warranted since 84.7% of the District's operating revenue comes from local sources. Only 15.3% of the District's operating budget comes from state and federal sources. The minimum collection rate for current and delinquent taxes for Indicator #6 is 96%. Our District has maintained over a 99% collection rate for the past seven years.

<b><u>For Year Ended</u></b>	<b><u>Total Tax Collections</u></b>
1998	99.7%
1999	99.9%
2000	99.7%
2001	99.7%
2002	99.9%
2003	99.5%
2004	99.8%

Had our District only collected the minimum of 96% during the 2003-04 fiscal year, we would have seen a \$6.9 million reduction in property tax revenue.

### **Budgetary Planning & Financial Allocations**

The District's budget process usually begins in December each year with the Board setting budget goals. During the first month of planning, budget allocations are developed for each campus and department. In addition, a budget manual is updated for the new year and distributed to all budget managers.

Most school districts have some rational basis for allocating funds to campuses and operating departments. In Clear Creek ISD, we allocate funds to campuses based on the number of students attending that campus. Support departments get funds based on their previous year's budget adjusted (up or down) for future years' needs. Special project requests for amounts supplemental to allocations are considered individually each year.

In February, we begin attempting to calculate state and local tax revenues and the budget starts to take on some form. For teacher recruiting purposes, the optimal time for making a public salary decision is March. Also during the month of March the Board is given a draft of the five year long-range financial plan. May is the month we are first able to give the Board and the public a preliminary view of how the next year's budget looks. May through July are busy months budget-wise, with Board workshops and meetings with the District's Budget Committee. 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 July or August. In odd-numbered years, the legislature is in session, and that complicates and delays our budgeting process.

Our budget process is a proactive and highly participatory one, where campuses and departments are given a great deal of discretion as to how to budget their funds. 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 to a certain degree. We call it site-based decision making. It's our version of campus empowerment. Most importantly, it is a system that works best in the long run for all of us by allocating resources where they are needed, even when those needs change.