

Annual Financial Accountability Management Report

For the Year Ending August 31, 2011

*Leading the Way
in the 21st Century*



**CLEAR CREEK
INDEPENDENT SCHOOL DISTRICT**

**Dr. Greg Smith, Superintendent of Schools
Paul McLarty, RSBA, RTSBA, Deputy Superintendent of Business and Support Services
Jeff Kohlenberg, CPA, RTSBA, Director of Financial Services**

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Clear Creek Independent School District Annual Financial Accountability Management Report

Introduction

During the 77th 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 2011 Final School FIRST rating on September 20, 2012 for the 2010-2011 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 is 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 added a great degree of importance to our finance submission each year.

The worksheet consists of 20 Indicators, each weighted equally with the exception of the Critical Indicators. A "No" response in Indicators #1, #2, #3 or #4 or a "No" response to both Indicators #5 and #6 together automatically result in a rating of Substandard Achievement, so these first six Indicators are of utmost importance.

New provisions implemented during the 2006-2007 fiscal year were adopted by the Commissioner's rulemaking authority. The adopted amendment updated the rating system by adding one new critical indicator and enhancing other existing indicators.

Currently, Clear Creek ISD enjoys a rating of "***Superior Achievement***", scoring 70 points on the financial accountability worksheet. The worksheet itself and a discussion of its salient points follow.

Financial Integrity Rating System of Texas

2010-2011 DISTRICT STATUS DETAIL

Name: CLEAR CREEK ISD(084910)	Publication Level 1: 6/28/2012 12:33:14 PM
Status: Passed	Publication Level 2: None
Rating: Superior Achievement	Last Updated: 6/28/2012 12:33:14 PM
District Score: 70	Passing Score: 52

#	Indicator Description	Updated	Score
1	<u>Was The Total Fund Balance Less Nonspendable and Restricted Fund Balance Greater Than Zero In The General Fund?</u>	6/15/2012 3:20:53 PM	Yes
2	<u>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 10% more)</u>	6/15/2012 3:20:53 PM	Yes
3	<u>Were There No Disclosures In The Annual Financial Report And/Or Other Sources Of Information Concerning Default On Bonded Indebtedness Obligations?</u>	6/15/2012 3:20:54 PM	Yes
4	<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>	6/15/2012 3:20:54 PM	Yes
5	<u>Was There An Unqualified Opinion in Annual Financial Report?</u>	6/15/2012 3:20:54 PM	Yes
6	<u>Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?</u>	6/15/2012 3:20:54 PM	Yes
			1 Multiplier Sum
7	<u>Was The Three-Year Average Percent Of Total Tax Collections (Including Delinquent) Greater Than 98%?</u>	6/15/2012 3:20:55 PM	5
8	<u>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)?</u>	6/15/2012 3:20:55 PM	5

9	<u>Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) < \$350.00 Per Student? (If The District's Five-Year Percent Change In Students = Or > 7%, Or If Property Taxes Collected Per Penny Of Tax Effort > \$200,000 Per Student)</u>	6/15/2012 3:20:56 PM	5
10	<u>Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?</u>	6/15/2012 3:20:56 PM	5
11	<u>Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g. No Conservator Or Monitor Assigned)</u>	6/15/2012 3:20:56 PM	5
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>	6/15/2012 3:20:57 PM	5
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>	6/15/2012 3:20:57 PM	5
14	<u>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)</u>	6/15/2012 3:20:57 PM	5
15	<u>Was The Administrative Cost Ratio Less Than The Threshold Ratio?</u>	6/15/2012 3:20:58 PM	5
16	<u>Was The Ratio Of Students To Teachers Within the Ranges Shown Below According To District Size?</u>	6/15/2012 3:20:58 PM	5
17	<u>Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size?</u>	6/15/2012 3:20:58 PM	5
18	<u>Was The Decrease In Undesignated Unreserved Fund Balance < 20% Over Two Fiscal Years?(If Total Revenues > Operating Expenditures In The General Fund,Then District Receives 5 Points)</u>	6/15/2012 3:20:59 PM	5
19	<u>Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?</u>	6/15/2012 3:20:59 PM	5
20	<u>Were Investment Earnings In All Funds (Excluding Debt Service Fund</u>	6/15/2012	5

<u>and Capital Projects Fund) Meet or Exceed the 3-Month Treasury Bill Rate?</u>	3:21:00 PM	
		70 Weighted Sum
		1 Multiplier Sum
		70 Score

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 7-20)								
	<table border="1"> <tr> <td>Superior Achievement</td> <td>64-70</td> </tr> <tr> <td>Above Standard Achievement</td> <td>58-63</td> </tr> <tr> <td>Standard Achievement</td> <td>52-57</td> </tr> <tr> <td>Substandard Achievement</td> <td><52</td> </tr> </table>	Superior Achievement	64-70	Above Standard Achievement	58-63	Standard Achievement	52-57	Substandard Achievement	<52
Superior Achievement	64-70								
Above Standard Achievement	58-63								
Standard Achievement	52-57								
Substandard Achievement	<52								

INDICATOR 17 & 18 RATIOS

Indicator 17	Ranges for Ratios		Indicator 18	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

Overview of the Worksheet

Critical Indicators

Indicators #1 through #6 are the critical indicators. Any “NO” response in this category is a signal indicator of fiscal distress. These six 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 2010-2011 fiscal year, Clear Creek ISD had a General Fund Balance of \$55.7 million and passed all other critical indicators.

Fiscal Responsibility

Indicators #7 through #11 concern fiscal responsibility. Clear Creek ISD’s percentage of tax collections easily exceeds the increased minimum standard of 98.0% required in Indicator #7. For the year under review, taxes were collected at a rate of 99.7%. The District passed Indicator #9 which required that the District’s PEIMS financial data submission agree to the Annual Financial Report. The District also passed Indicator #9 due to taxes collected per penny of tax effort exceeding \$200,000. Indicators #10 and #11 are very similar to the Critical Indicators, and Clear Creek easily passed these two on audit and full financial accreditation status.

Budgeting

Indicators #12 through #14 concern budgeting, management and cash flow practices. 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 2010-11 year, the District’s administrative cost ratio was well below that of the State standard of 11.05% at 4.56%. 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 14.5 students per classroom teacher and 7.7 students per staff member.

Cash Management

The final three indicators deal with cash management practices. Indicator #18 deals with any decrease in General Fund Balance over two years. Since our unassigned fund balance increased over the two years, we easily met this indicator. Cash and investments were greater than \$0, so

Indicator #19 was easily surpassed, and investment earnings were approximately 0.68%, exceeding the 3-Month Treasury Bill rate of 0.095% set forth in Indicator #20.

Summary

The Clear Creek ISD School Board, administration and the community have worked hard to improve and maintain the financial condition of the District. 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 maintain our unassigned 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 fourteen years, we have been able to increase our unassigned fund balance from \$9.7 million to \$45.2 million. At this time, our fund balance is at a sufficient level to cover 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 1.9% 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	67.8%
Facilities Maintenance & Upkeep	7.3%
Campus Administration	6.3%
Student Transportation	3.5%
Guidance and Counseling Services	3.5%
Extracurricular & Cocurricular	2.5%
Data Services	2.3%
General Administration	2.1%
Other	1.7%
Security	1.1%
Instructional Administration	1.0%
Health Services	1.0%

One measure the State of Texas uses to indicate 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 is 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.

Administrative Cost Comparison

Year	State Limit	District Actual	Amount Under Limit
2006-2007	11.05%	6.14%	\$ 6,879,322
2007-2008	11.05%	5.75%	\$ 8,053,414
2008-2009	11.05%	4.89%	\$10,486,657
2009-2010	11.05%	4.63%	\$11,877,118
2010-2011	11.05%	4.56%	\$11,693,516

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 providing educational opportunities for 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 district uses 25 years for repayment of bonds for construction of facilities, even though the life of the building to be built is much longer. In no instance does the district finance bonds for a longer period than the life expectancy of the capital improvement. The repayment timelines for technology bonds are parallel to the minimal life expectancy of the equipment.

As our district continues to face the many challenges associated with rapid growth, our Board of Trustees unanimously called for a bond referendum on May 12, 2007. With a 72% approval rate, the taxpayers authorized \$183 million to build four new schools, convert two ninth grade centers back to intermediate schools, increase the number of math and science classrooms at all high schools, add and replace buses, and other capital improvement projects. This referendum is being funded by a two cent increase on the Interest and Sinking (I&S) tax rate.

The District continually monitors outstanding debt and takes opportunities to reduce interest costs when available. Over the last three years, Clear Creek ISD has realized savings of approximately \$10.7 million due to bond refundings. 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 five 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 Cash & Investment Report is included quarterly in the Board of Trustees meeting agenda for review and approval.

Tax Collections

Indicator #7 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 56% of the District’s operating revenue came from local sources in 2010-2011. The minimum collection rate for current and delinquent taxes for Indicator #7 is 98%. The District collection rates for the last five years are as follows:

For Year Ended	Total Tax Collections
8/31/2007	99.7%
8/31/2008	99.9%
8/31/2009	99.8%
8/31/2010	99.9%
8/31/2011	99.7%

Had our District only collected the minimum of 98% during the 2010-2011 fiscal year, we would have seen a \$4.1 million reduction in property tax revenue.

Budgetary Planning & Financial Allocations

The District’s budget process usually begins in the Fall 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 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.

Budget and Financial Reporting Awards

Government Finance Officers Association (GFOA)

Distinguished Budget Presentation Award
Certificate of Achievement for Excellence in Financial Reporting

Association of School Business Officials International (ASBO)

Meritorious Budget Award
Certificate of Excellence in Financial Reporting

Texas Comptroller Gold Leadership Circle for Financial Transparency

Reporting Requirements under Financial Solvency Provisions of TEC 39.0882

General Fund – First Quarter Expenditures 2011-2012

Payroll	\$56,942,567
Contract Costs	\$ 3,067,026
Supplies and Materials	\$ 2,380,864
Other Operating Costs	\$ 3,989,967
Debt Service	\$ 0
Capital Outlay	\$ 49,291

Additional Financial Solvency Questions

Clear Creek Independent School District did not draw funds from short-term financial notes between the months of September and December.

Clear Creek Independent School District has not declared financial exigency within the past two years.

Clear Creek Independent School District student-to-staff ratios are within the acceptable range for school districts of the same size. There has been not rapid depletion of General Fund balances or any significant discrepancies between actual budget figures and projected revenue and expenditures.

There have been two superintendents and one business manager for Clear Creek Independent School District in the past five years.

Reporting Requirements for Superintendent and Board of Trustees

Superintendent and Board of Trustees Travel Expenditures

For the twelve month period ended August 31, 2011

	<u>Greg Smith</u>	<u>Ken Baliker</u>	<u>Robert Davee</u>	<u>Ann Hammond</u>
Meals	43.69	0.00	0.00	25.40
Lodging	818.80	0.00	0.00	0.00
Transportation	1,112.04	0.00	0.00	0.00
Registration	793.81	185.30	185.30	185.30
Other	0.00	0.00	0.00	0.00
Total	2,768.34	185.30	185.30	210.70

	<u>Charles Pond</u>	<u>Page Rander</u>	<u>Dee Scott</u>	<u>Win Weber</u>
Meals	25.40	0.00	25.40	25.40
Lodging	0.00	0.00	0.00	0.00
Transportation	0.00	0.00	0.00	0.00
Registration	185.30	60.00	110.30	185.30
Other	14.00	0.00	0.00	0.00
Total	224.70	60.00	135.70	210.70

Superintendent Outside Compensation

Greg Smith, Ph.D. did not receive any outside compensation or fees for professional consulting or other personal services for the twelve month period ended August 31, 2011.

Executive Officers and Board of Trustees Gifts

Executive Officers and Board Members did not receive gifts that had an economic value of \$250 or more in aggregate for the twelve month period ended August 31, 2011.