

**Annual Financial Accountability  
Management Report**

**For the Year Ending August 31, 2016**



**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**

## Table of Contents

	<u>Page</u>
Introduction	1
Overview of the Worksheet	1
Critical Indicators	2
Solvency Indicators	2
Financial Competence Indicators	3
Financial Accountability Ratings Worksheet for 2016-2017	4
Other Data Concerning the District's Operations	7
Financial Strength	7
Operating Cost Management	7
Personnel Management	9
Debt Management	9
Cash Management	10
Tax Collections	10
Budgetary Planning & Financial Allocations	10
Budget and Financial Reporting Awards	11
Reporting Requirements for Superintendent and Board of Trustees:	
Superintendent Outside Compensation	12
Executive Officers and Board of Trustees Gifts	12
Superintendent and Board of Trustees Reimbursements	12

# Clear Creek Independent School District Annual Financial Accountability Management Report

## Introduction

This is the 15<sup>th</sup> year of School FIRST (Financial Integrity Rating System of Texas), a financial accountability system for Texas school districts developed by the Texas Education Agency in response to Senate Bill 875 of the 76<sup>th</sup> Texas Legislature in 1999 and amendments under House Bill 5, 83<sup>rd</sup> Texas Legislature, Regular Session, 2013. The primary goal of School FIRST is to achieve quality performance in the management of school districts' financial resources, a goal made more significant due to the complexity of accounting associated with Texas' school finance system.

The School FIRST accountability rating ensures that Texas school districts are accountable not only for student learning, but also for achieving these results cost effectively and efficiently. The information provided by the School FIRST system will guide us in our continued efforts to maximize each taxpayer dollar.

As part of School FIRST, each school district must prepare an annual financial accountability report within two months of the date of issuance of the final School FIRST ratings. The District received official notification of the 2016 Final School FIRST rating on November 3, 2017 for the 2015-2016 fiscal year.

The Texas Education Agency assigned one of four financial accountability ratings to Texas school districts, with the highest being "A" for "Superior Achievement," followed by "B" for "Above-Standard Achievement," "C" for "Standard Achievement" and "F" for "Substandard Achievement." *Clear Creek ISD has achieved the highest rating for all 15 years!*

## Overview of the Worksheet

The reporting tool for School FIRST 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.

The worksheet consists of 15 indicators, each weighted equally with the exception of the Critical Indicators. A "No" response on indicators #1, #2, #3, #4 or #5 automatically result in a failure of FIRST, so these first five indicators are of utmost importance.

Changes to the School FIRST system implemented by the Texas Education Agency in August 2015 were phased-in over three years. The worksheet for the rating year 2014-2015 contained only seven indicators. The worksheet for the 2015-2016 and 2016-2017 increased to 15 indicators. The

new categories of indicators include Critical Indicators, Solvency Indicators and Financial Competence Indicators. The worksheet for the rating year 2016-2017 requires higher scores for select ratings compared to the worksheet for the rating year 2015-2016.

### **Critical Indicators**

Indicators #1 through #5 are the critical indicators. Any “NO” response in this category is an indicator of fiscal distress. These five indicators revolve around:

- Timely filing of the Annual Financial Report (AFR)
- Auditor opinion
- Compliance with the payment terms of all debt agreements
- Timely payment of all payroll taxes
- Total net assets

Clear Creek ISD easily passed all of the critical indicators due to timely filing of the annual audit report with a “clean” opinion, timely payment of payroll taxes, compliance with the payment terms of all debt agreements, and an unrestricted net asset balance of \$68 million.

### **Solvency Indicators**

Indicators #6 through #12 concern the solvency of Clear Creek ISD. These seven indicators focus on:

- Cash and investments on hand
- Current asset to current liability ratio
- Long-term liability to total asset ratio
- Revenues compared to expenditures
- Debt service coverage ratio
- Administrative cost ratio
- Student to staff ratio

Clear Creek ISD scored the maximum points on four of these indicators. On indicators #6 and #8 the District scored less than the maximum. On Indicator #6 which looks at the number of days of cash and investments in the general fund and compares it to the operating expenditures, we scored 8 out of 10 points. In order to score the maximum, the District must have at least 90 days of cash and investments on hand. As of August 31, 2016, CCISD had 86 days on hand. On indicator #8 which looks at long term liabilities and compares it to total assets we scored 6 out of 10 points. We do not anticipate this score changing next year due to the amount of long-term debt which is a result of continued enrollment growth resulting in the need for more facilities.

## **Financial Competence Indicators**

Indicators #13 through #15 identify if there are any serious deficiencies in the financial management of the District. These three indicators focus on:

- Quality of Public Education Information Management System (PEIMS) financial data compared to the AFR result in less than a 3% variance
- Instance(s) of material noncompliance noted by the external independent auditor
- Adjustments due to financial hardship to the regular repayment of any Foundation School Program funds overpayments

Clear Creek ISD met or exceeded all three of these indicators as a comparison of PEIMS data to the annual financial report resulted in .000001% variance. The AFR noted no instance of material noncompliance and the district is not on a financial hardship payment plan due to an over allocation of Foundation School Program funds.

**2016-2017 RATINGS BASED ON SCHOOL YEAR 2015-2016 DATA - DISTRICT STATUS DETAIL**

<b>Name: CLEAR CREEK ISD (084910)</b>		<b>Publication Level 1:</b> 8/8/2017 2:29:29 PM	
<b>Status: Passed</b>		<b>Publication Level 2:</b> 8/8/2017 2:29:29 PM	
<b>Rating:</b> A = Superior		<b>Last Updated:</b> 8/8/2017 2:29:29 PM	
<b>District Score:</b> 94		<b>Passing Score:</b> 60	
#	Indicator Description	Updated	Score
1	<u>Was the complete annual financial report (AFR) and data submitted to the TEA within 30 days of the November 27 or January 28 deadline depending on the school district's fiscal year end date of June 30 or August 31, respectively?</u>	3/28/2017 11:33:30 AM	Yes
2	Review the AFR for an unmodified opinion and material weaknesses. The school district must pass 2.A to pass this indicator. The school district fails indicator number 2 if it responds "No" to indicator 2.A. or to both indicators 2.A and 2.B.		
2.A	<u>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.)</u>	3/28/2017 11:33:30 AM	Yes
2.B	<u>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, or federal funds? (The AICPA defines material weakness.)</u>	3/28/2017 11:33:30 AM	Yes
3	<u>Was the school district in compliance with the payment terms of all debt agreements at fiscal year end? (If the school district was in default in a prior fiscal year, an exemption applies in following years if the school district 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.)</u>	3/28/2017 11:33:30 AM	Yes
4	<u>Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?</u>	3/28/2017 11:33:31 AM	Yes

5	<u>Was the total unrestricted net position balance (Net of the accretion of interest for capital appreciation bonds) in the governmental activities column in the Statement of Net Position greater than zero? (If the school district's change of students in membership over 5 years was 10 percent or more, then the school district passes this indicator.)</u>	3/28/2017 11:33:31 AM	Yes
			1 Multiplier Sum
6	<u>Was the number of days of cash on hand and current investments in the general fund for the school district sufficient to cover operating expenditures (excluding facilities acquisition and construction)? (See ranges below.)</u>	3/28/2017 11:33:31 AM	8
7	<u>Was the measure of current assets to current liabilities ratio for the school district sufficient to cover short-term debt? (See ranges below.)</u>	3/28/2017 11:33:31 AM	10
8	<u>Was the ratio of long-term liabilities to total assets for the school district sufficient to support long-term solvency? (If the school district's change of students in membership over 5 years was 10 percent or more, then the school district passes this indicator.) (See ranges below.)</u>	3/28/2017 11:33:32 AM	6
9	<u>Did the school district's general fund revenues equal or exceed expenditures (excluding facilities acquisition and construction)? If not, was the school district's number of days of cash on hand greater than or equal to 60 days?</u>	3/28/2017 11:33:32 AM	10
10	<u>Was the debt service coverage ratio sufficient to meet the required debt service? (See ranges below.)</u>	5/18/2017 12:23:41 PM	10
11	<u>Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)</u>	3/28/2017 11:33:33 AM	10
12	<u>Did the school district 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 school district will automatically pass this indicator.)</u>	6/21/2017 8:18:36 PM	10
13	<u>Did the comparison of Public Education Information Management System (PEIMS) data to like information in the school district's AFR result in a total variance of less than 3 percent of all expenditures by function?</u>	3/28/2017 11:33:34 AM	10

14	<u>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.)</u>	3/28/2017 11:33:34 AM	10
15	<u>Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?</u>	3/28/2017 11:33:34 AM	10
			94 Weighted Sum
			1 Multiplier Sum
			94 Score

## 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 but that we feel are worthy of notation.

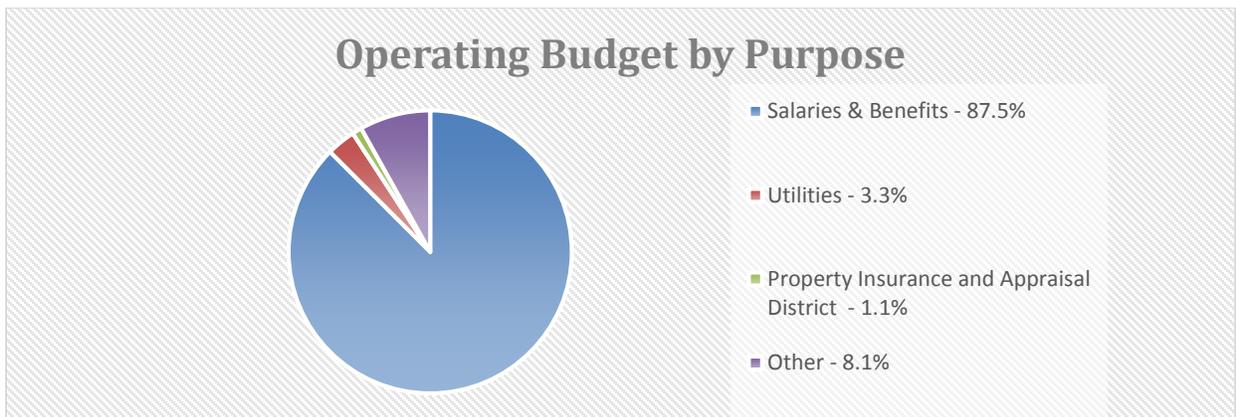
### **Financial Strength**

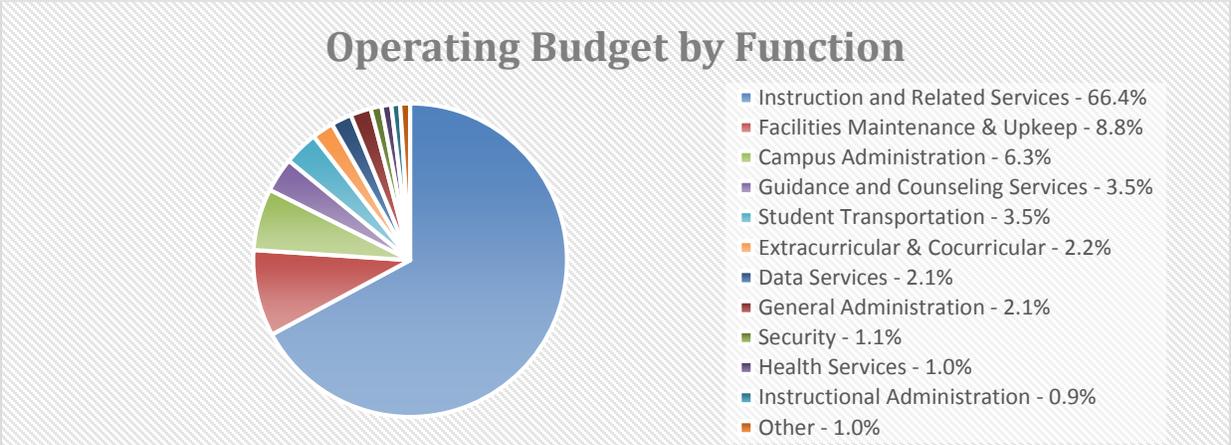
The State of Texas recommends that we discuss financial strength in this report. This is a difficult topic to address because there are many measures of financial strength, some are better than others, and it's hard to tell which one is the best measure. For Clear Creek ISD, we believe the most significant financial indicator of strength is our ability to maintain two months unassigned fund balance which is a level sufficient to avoid the need to borrow funds to cover operating shortfalls prior to tax collections beginning in November and December each year. As of August 31, 2016 CCISD's unassigned balance was \$54,938,429 which was slightly more than two months of the 2016-2017 adopted budget.

### **Operating Cost Management**

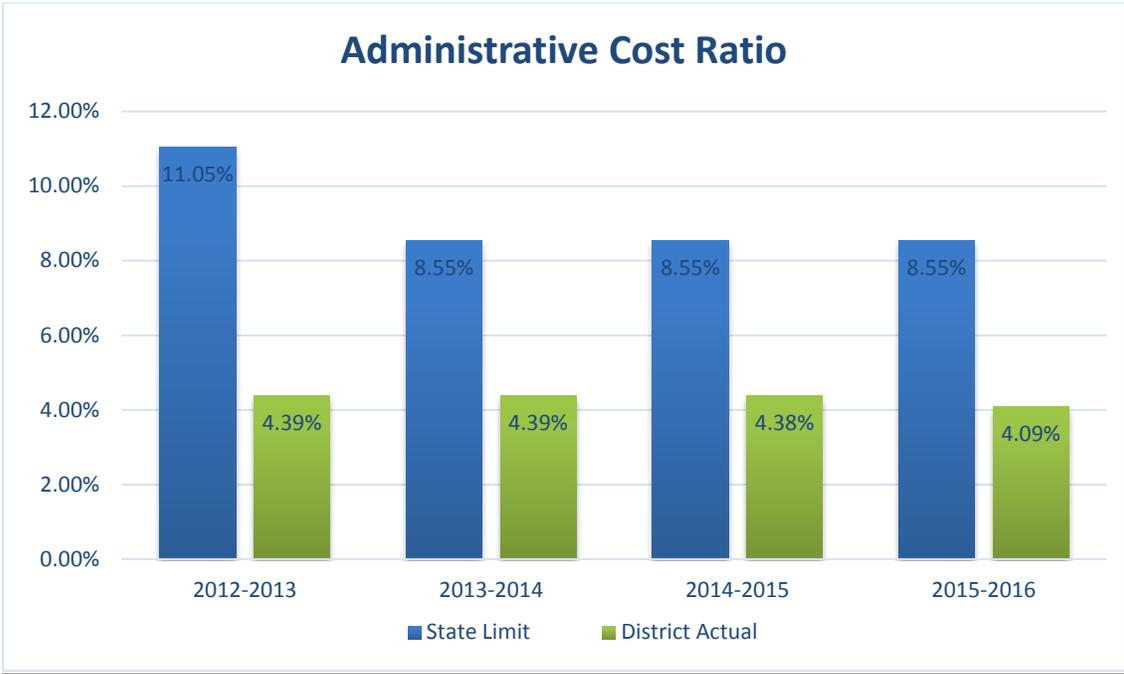
As illustrated below, only a small portion of our total General Fund expenditures is flexible or variable in nature. Appraisal district fees, payroll costs, property insurance, and utility payments account for approximately 92% of the District's operating budget each year. Once you remove these four 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 charts below illustrate the breakdown of the operating budget.





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 that 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 8.55% (previously 11.09%). 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 show how our ratio has actually remained low over the past several years as noted in the chart below.



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 below 5% since 2008-2009. 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. The above chart, more than any other indicator, clearly demonstrates that we are putting our money into providing educational opportunities for our students.

### **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 all of our 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 staff has been a priority for Clear Creek ISD.

### **Debt Management**

The district uses 25 years or less 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 and aging facilities, our Board of Trustees unanimously called for a \$487 million bond referendum on May 6, 2017 which passed with a 64% approval rate. The bond program will allow us to build Florence Campbell Elementary School (Elementary #27), rebuild two schools that are well over 50 years old while simultaneously updating other campuses to bring them up to today's learning standards, replace dangerous playgrounds, purchase new security systems and school buses, launch a second science magnet program at Brookside Intermediate, and conduct priority repairs and projects across CCISD. At the time of the bond referendum it was projected to cost an additional 3.5 cents 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 15 years, Clear Creek ISD has refinanced debt which has saved taxpayers nearly \$65.5 million in interest over the life of the bonds.

## **Cash Management**

The current worksheet only addresses cash and investment balances at year-end. The previous worksheet only required that a District have cash available and that a minimal rate of return be earned. In truth, our investment and cash management program is much more complex.

Clear Creek ISD has state and local board policies that require 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 can be purchased. Clear Creek ISD does not purchase investments that fall outside these policy restrictions. 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. Each quarter we benchmark our portfolio's yield 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 quarter. A Cash & Investment Report is included quarterly in the Board of Trustees meeting agenda for review and approval.

## **Tax Collections**

Although the current worksheet no longer addresses tax collections, we felt that mention was warranted since 58.3% of the District's operating revenue came from local property taxes during 2015-2016. The District has its own Tax Office and current year collection rates historically exceed 99%. Collection rates for the last four years are as follows:

<b>For Fiscal Year Ended</b>	<b>Current Year Tax Collections</b>
8/31/2013	99.3%
8/31/2014	99.2%
8/31/2015	99.4%
8/31/2016	99.4%

## **Budgetary Planning & Financial Allocations**

The District's budget process usually begins in the fall each year with the Board setting budget goals. In early spring budget allocations are developed for each campus and department and budget manual is updated for the new year and distributed to all budget managers and bookkeepers.

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 projected to attend that campus the following year. Once PEIMS enrollment is known, campus budgets are adjusted based on actual enrollment. 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.

By April, 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 but often is done in June or July. A five year long-range financial plan, which is reviewed with the Board periodically, is updated throughout the year. By the end of May we are 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 and 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

## **Reporting Requirements for Superintendent and Board of Trustees**

### **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, 2016.

### **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, 2016.

### **Superintendent and Board of Trustees Travel Expenditures**

For the twelve month period ended August 31, 2016

	<u>Greg Smith</u>	<u>Ken Baliker</u>	<u>Jay Cunningham</u>	<u>Laura DuPont</u>
Meals	46.97	69.38	0.00	0.00
Lodging	2,520.19	716.13	477.42	716.13
Transportation	2,888.35	261.81	48.04	297.46
Registration	350.00	50.00	325.00	325.00
Other	0.00	0.00	0.00	0.00
Total	<u>5,805.51</u>	<u>1,097.32</u>	<u>850.46</u>	<u>1,338.59</u>

	<u>Ann Hammond</u>	<u>Charles Pond</u>	<u>Page Rander</u>	<u>Win Weber</u>
Meals	0.00	30.46	123.00	0.00
Lodging	716.13	716.13	1,786.76	477.42
Transportation	0.00	313.19	667.16	48.04
Registration	325.00	325.00	325.00	325.00
Other	0.00	0.00	0.00	0.00
Total	<u>1,041.13</u>	<u>1,384.78</u>	<u>2,901.92</u>	<u>850.46</u>