

**Annual Financial Accountability
Management Report**

For the Year Ending August 31, 2006



**CLEAR CREEK
INDEPENDENT SCHOOL DISTRICT**

EDUCATE ★ EQUIP ★ EXCEL

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

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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 2006 Final School FIRST rating on August 17, 2007 for the 2005-2006 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 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

2005-2006 DISTRICT STATUS DETAIL

Name: CLEAR CREEK ISD(084910)			
Rating: Superior Achievement		Last Updated: 8/23/2007 9:30:25 AM	
Indicators Answered YES: 21		Indicators Answered NO: 0	
#	Indicator Description	Updated	Result
1	Was The Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund?	6/14/2007 10:47:23	Yes
2	Were There No Disclosures In The Annual Financial Report And/Or Other Sources Of Information Concerning Default On Bonded Indebtedness Obligations?	6/14/2007 10:47:23	Yes
3	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)?	6/14/2007 10:47:23	Yes
4	Was There An Unqualified Opinion in Annual Financial Report?	6/14/2007 10:47:23	Yes
5	Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?	6/14/2007 10:47:23	Yes
6	Was The Percent Of Total Tax Collections (Including	6/14/2007	Yes

	Delinquent) Greater Than 96%?	10:47:23	
7	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)?	6/14/2007 10:47:23	Yes
8	Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) < \$770.00 Per Student? (If The District's Five-Year Percent Change In Students = Or > 2%, Or If Property Taxes Collected Per Penny Of Tax Effort > \$100,000, Then Answer This Indicator Yes)	6/14/2007 10:47:23	Yes
9	Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?	6/14/2007 10:47:23	Yes
10	Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g. No Master Or Monitor Assigned)	6/14/2007 10:47:23	Yes
11	Was The Percent Of Operating Expenditures Expended For Instruction More Than 54%?	6/14/2007 10:47:23	Yes
12	Was The Aggregate Of Budgeted Expenditures And Other Uses Less Than The Aggregate Of Total Revenues, Other Resources and Fund Balance In General Fund?	6/14/2007 10:47:23	Yes
13	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)	6/14/2007 10:47:23	Yes

14	Was The Ratio Of Cash And Investments To Deferred Revenues (Excluding Amount Equal To Net Delinquent Taxes Receivables) In The General Fund = Or > 1:1? (If Deferred Revenues < Net Delinquent Taxes Receivable, Then Answer This Indicator Yes)	6/14/2007 10:47:23	Yes
15	Was The Administrative Cost Ratio Less Than The Standard In State Law?	6/14/2007 10:47:23	Yes
16	Was The Ratio Of Students To Teachers Within the Ranges Shown Below According To District Size?	6/14/2007 10:47:23	Yes
17	Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size?	6/14/2007 10:47:23	Yes
18	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?	6/14/2007 10:47:23	Yes
19	Was The Decrease In Undesignated Unreserved Fund Balance < 20% Over Two Fiscal Years?(If 1.5 Times Optimum Fund Balance < Total Fund Balance In General Fund Or If Total Revenues > Operating Expenditures In The General Fund, Then Answer This Indicator Yes)	6/14/2007 10:47:23	Yes
20	Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?	6/14/2007 10:47:23	Yes
21	Were Investment Earnings In All Funds More Than \$15 Per Student?	6/14/2007 10:47:23	Yes

DETERMINATION OF RATING

A.	Did The District Answer ' No ' To Indicators 1, 2, Or 3? OR Did The District Answer ' No ' To Both 4 and 5? If So, The District's Rating Is Substandard Achievement .								
B.	Determine Rating By Applicable Range For The Number Of Indicators Answered ' No ':								
	<table border="1" style="width: 100%;"> <tr> <td style="width: 50%;">Superior Achievement</td> <td>0-2</td> </tr> <tr> <td>Above Standard Achievement</td> <td>3-4</td> </tr> <tr> <td>Standard Achievement</td> <td>5-6</td> </tr> <tr> <td>Substandard Achievement</td> <td>7+ OR 'No' To Critical Indicator(s)</td> </tr> </table>	Superior Achievement	0-2	Above Standard Achievement	3-4	Standard Achievement	5-6	Substandard Achievement	7+ OR ' No ' To Critical Indicator(s)
Superior Achievement	0-2								
Above Standard Achievement	3-4								
Standard Achievement	5-6								
Substandard Achievement	7+ OR ' No ' To Critical Indicator(s)								

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 2005-06 fiscal year, Clear Creek ISD had a General Fund Balance of \$51.3 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 99.8%. 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 59% 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 2005-06 year, the District’s administrative cost ratio was well below that of the State standard of 11.05% at 5.94%. 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 17.1 students per classroom teacher and 8.9 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 2005-06 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 \$303 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 ten years, we have been able to increase our undesignated unreserved fund balance from \$9.7 million to \$41.6 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 84.6% of the budget each year. Utility payments fluctuate from year to year, but comprise approximately 4.3% of the budget. Property insurance and appraisal district fees comprise an additional 2.0% of the budget. These four items alone account for approximately 91% 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	65.0%
Facilities Maintenance & Upkeep	11.7%
Campus Administration	6.0%
Student Transportation	3.5%
Guidance and Counseling Services	3.3%
General Administration	3.2%
Extracurricular & Cocurricular	2.1%
Data Services	1.7%
Other	1.7%
Health Services	1.0%
Instructional Administration	0.9%

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.

Administrative Cost Comparison			
<u>Year</u>	<u>State Limit</u>	<u>District Actual</u>	<u>Amount Under Limit</u>
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
2004-05	11.05%	6.80%	\$ 5,180,119
2005-06	11.05%	5.94%	\$ 6,718,833

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 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 expectancy of the equipment.

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 5.5 cents.

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 an estimated two cent increase on the Interest and Sinking (I&S) tax rate.

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 Cash & Investment Report is included quarterly in the 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% (2005-2006) of the District's operating revenue came from local sources. Only 15.3% of the District's operating budget came 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.

For Year <u>Ended</u>	<u>Total Tax Collections</u>
2000	99.7%
2001	99.7%
2002	99.9%
2003	99.5%
2004	99.8%
2005	99.7%
2006	99.8%

Had our District only collected the minimum of 96% during the 2005-06 fiscal year, we would have seen a \$8.2 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.

Budget and Financial Reporting Awards

Government Officers Association (GFOA)

Distinguished Budget Presentation Award

Certificate of Achievement for Excellence in Financial Reporting

Association of School Business Officials International (ASBO)

Certificate of Excellence in Financial Reporting

Superintendent and Board of Trustees Travel Expenditures

For the Twelve-Month Period ended August 31, 2006

<u>Description of Expenditure</u>	<u>Sandra Mossman</u>	<u>Joanna Baleson</u>	<u>Glenn Brown</u>	<u>Robert Davee</u>
Meals	382.98	48.00	-	-
Lodging	723.95	1,134.26	389.13	259.42
Transportation	535.49	589.84	210.55	16.00
Registration	1,170.00	1,355.00	-	1,055.00
Other	-	-	-	-
Total	<u>2,812.42</u>	<u>3,127.10</u>	<u>599.68</u>	<u>1,330.42</u>

<u>Description of Expenditure</u>	<u>Glenn Freedman</u>	<u>David Juengel</u>	<u>Ralph Parr</u>	<u>Dee Scott</u>
Meals	-	-	23.00	-
Lodging	259.42	259.42	585.09	-
Transportation	214.40	178.40	300.00	-
Registration	780.00	275.00	1,055.00	275.00
Other	-	-	-	-
Total	<u>1,253.82</u>	<u>712.82</u>	<u>1,963.09</u>	<u>275.00</u>

<u>Description of Expenditure</u>	<u>Stuart Stromeyer</u>	<u>Paula Tomasi</u>
Meals	-	-
Lodging	-	-
Transportation	-	-
Registration	275.00	1,355.00
Other	-	-
Total	<u>275.00</u>	<u>1,355.00</u>

Superintendent Outside Compensation

Sandra Mossman, Ed. D. did not receive any outside compensation or fees for Professional Consulting or other personal services for the twelve month period ended August 31, 2006.

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, 2006.