

Annual Financial Accountability Management Report

For the Year Ending August 31, 2014

*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. Clear Creek ISD received official notification of the 2014 Final School FIRST rating on October 22, 2015 for the 2013-2014 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.

There have been many changes to this worksheet and its indicators over the past 13 years. In August 2015 a phased-in series of changes over the next three years to the School FIRST system was implemented by the Texas Education Agency. The worksheet for rating year 2014-2015 contains only seven indicators and the worksheets for the next two years will contain fifteen indicators. Also, the worksheet for the rating year 2016-2017 requires higher scores for select ratings compared to the worksheet for rating year 2015-2016. The current accountability rating system assigns one of two financial ratings to Texas school districts, with the highest being "P" for "Passed" and the other rating being "F" for "Substandard Achievement".

Currently, Clear Creek ISD receives a rating of ***"Passed"***, scoring a maximum available 30 points on the financial accountability worksheet. The worksheet itself and a discussion of its salient points follow.

**Financial Integrity Rating System of Texas
2014-2015 Ratings based on School Year 2013-2014 Data - District Status Detail**

Name: CLEAR CREEK ISD(084910)		Publication Level 1: 8/20/2015 11:24:40 AM	
Status: Passed		Publication Level 2: 8/20/2015 11:24:40 AM	
Rating: Pass		Last Updated: 8/20/2015 11:24:40 AM	
District Score: 30		Passing Score: 16	
#	Indicator Description	Updated	Score
1	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?	4/6/2015 2:45:20 PM	Yes
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.)	4/6/2015 2:45:20 PM	Yes
3	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.)	4/6/2015 2:45:21 PM	Yes
4	Was the total unrestricted net asset balance (Net of the accretion of interest for capital appreciation bonds) in the governmental activities column in the Statement of Net Assets greater than zero? (If the school district's	7/30/2015 12:18:46 PM	Yes

	change of students in membership over 5 years was 10 percent or more, then the school district passes this indicator.)		
			1 Multiplier Sum
5	Was the school district's administrative cost ratio equal to or less than the threshold ratio? (See ranges below.)	7/15/2015 11:52:22 AM	10
6	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?	8/17/2015 5:48:24 PM	10
7	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.)	4/6/2015 2:45:23 PM	10
			30 Weighted Sum
			1 Multiplier Sum
			30 Score

Determination Of Rating

A.	Did The District Answer 'No' To Indicators 1, 2, 3, Or 4? If So, The District's Rating Is Substandard Achievement.	
B.	Determine Rating By Applicable Range For Summation of the Indicator Scores (Indicators 5-7)	
	Pass	16-30
	Substandard Achievement	<16

Overview of the Worksheet

Indicators #1 through #4 are the critical indicators. A “NO” response in this category is a signal of fiscal distress and will automatically give CCISD a rating of “Substandard Achievement”.

Indicator #1

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?

Answer: Yes, Clear Creek ISD submitted the annual financial report within 30 days of the January 28 deadline.

Indicator #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.)

Answer: Yes, Clear Creek ISD received an unmodified opinion or “clean audit”.

Indicator #3

Was the school district in compliance with the payment terms of all debt agreements at fiscal year end?

Answer: Yes, Clear Creek ISD is in compliance with all payment terms for all debt agreements.

Indicator #4

Was the total unrestricted net asset balance (net of the accretion of interest for capital appreciation bonds) in the governmental activities column in the Statement of Net Assets greater than zero?

Answer: Yes, Clear Creek ISD had total unrestricted net assets of \$113,817,039 as of August 31, 2014.

Indicator #5

Was the school district's administrative cost ratio equal to or less than the threshold ratio?

Answer: Clear Creek ISD scored the maximum 10 points on this indicator with an administrative cost ratio of 4.39% which is well below the state threshold of 8.55%. Prior to 2013-2014, the threshold had been 11.05%.

Indicator #6

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?

Answer: Yes, Clear Creek ISD scored the maximum 10 points on this indicator with a variance of .0001% which is well below the acceptable variance of 3%.

Indicator #7

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?

Answer: Yes, Clear Creek ISD scored the maximum 10 points on this indicator, since the external independent audit did not disclose any instances of material weaknesses in internal controls. Clear Creek ISD has won many awards for excellence in budgeting and financial reporting.

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 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, 2014 CCISD's unassigned balance was \$50,584,294 which was slightly more than two months of the 2014-2015 adopted budget.

Operating Cost Management

Only a small portion of our total General Fund expenditures is flexible or variable in nature. Salaries and benefits comprise approximately 86.1% of the budget each year. Utility payments fluctuate from year to year, but comprise approximately 3.6% of the budget. Property insurance and appraisal district fees comprise an additional 1.8% 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	68.1%
Facilities Maintenance & Upkeep	6.6%
Campus Administration	6.2%
Student Transportation	3.4%
Guidance and Counseling Services	3.4%
Extracurricular & Cocurricular	2.3%
Data Services	2.1%
General Administration	2.1%

Other	1.8%
Security	1.0%
Health Services	1.0%
Instructional Administration	0.9%

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 8.55%. 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
2011-2012	11.05%	4.50%	\$11,778,276
2012-2013	11.05%	4.39%	\$11,597,393
2013-2014	8.55%	4.39%	\$ 7,685,383

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. 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 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 bond referendum on May 11, 2013 which passed with a 69% approval rate. Under the \$367 million plan, 39 schools will either be rebuilt or improved. The bond referendum includes a major rebuild, a rebuild completion, a major expansion and one complete rebuild. Improvements will be scheduled for 35 schools and include the removal of portable buildings, expansion of campuses to accommodate student growth, upgrading safety and security systems, as well as building facilities to accommodate athletics, fine arts, science fair and the District's robotic program. District wide, technology and wireless access will also be improved. At the time of the bond referendum it was projected to cost an additional 11 cents on the Interest and Sinking (I&S) tax rate phased in over three years. Due to new construction and rising property values, we were able to reduce that increase to just 4 cents phased in over two years.

The District continually monitors outstanding debt and takes opportunities to reduce interest costs when available. Over the last ten years, Clear Creek ISD has refinanced debt which has saved taxpayers \$35.8 million in interest over the life of the bonds.

Cash Management

The current worksheet does not address cash and investment issues. Previous worksheet indicators 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 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 are not 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.

We also benchmark our portfolio's yield each quarter 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

Although the current worksheet does not address tax collections, we felt that mention was warranted since 57.8% of the District's operating revenue came from local property taxes during 2013-2014. The District has its own Tax Office and current year collection rates historically exceed 99%. Collection rates for the last three years are as follows:

For Year Ended	Current Year Tax Collections
8/31/2012	99.3%
8/31/2013	99.3%
8/31/2014	99.2%

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 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, 2014.

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, 2014.

Superintendent and Board of Trustees Travel Expenditures

For the twelve month period ended August 31, 2014

	<u>Greg Smith</u>	<u>Ken Baliker</u>	<u>Laura DuPont</u>	<u>Ann Hammond</u>
Meals	\$ 477.07	\$ 19.75	\$ 13.91	\$ 27.99
Lodging	\$1,164.25	\$ 215.82	\$1,247.67	\$1,247.67
Transportation	\$1,356.56	\$ 432.63	\$ 892.40	\$ 378.65
Registration	\$1,085.00	\$ 385.00	\$1,295.00	\$1,280.00
Other	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Total	\$4,082.88	\$1,053.20	\$3,448.98	\$2,934.31

	<u>Charles Pond</u>	<u>Page Rander</u>	<u>Dee Scott</u>	<u>Win Weber</u>
Meals	\$ 51.88	\$ 204.00	\$ 104.82	\$ 0.00
Lodging	\$ 556.62	\$1,717.90	\$ 556.62	\$ 195.94
Transportation	\$ 403.50	\$ 28.00	\$ 0.00	\$ 0.00
Registration	\$ 385.00	\$1,280.00	\$ 385.00	\$ 385.00
Other	\$ 0.00	\$ 29.90	\$ 0.00	\$ 0.00
Total	\$1,397.00	\$3,259.80	\$1,046.44	\$ 580.94