



**Pasadena Independent School District  
Annual Financial Accountability  
Management Report**

For the Year Ending August 31, 2005



**Kirk Lewis, Superintendent of Schools  
John M. Piscacek, Associate Superintendent for Finance**

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## Pasadena Independent School District Annual Financial Accountability Management Report

### 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 new law authorized the implementation of a financial accountability rating system, which is officially referred to as FIRST (Financial Integrity Rating System of Texas). The FIRST rating is based upon an analysis of staff and student data reported for the 2004-2005 school year, and budgetary and actual financial data for the 2005 fiscal year ending August 31, 2005.

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

Currently, Pasadena ISD enjoys a rating of “*Superior Achievement*” for the fourth consecutive year, again scoring a perfect 21 out of a possible 21 on the financial accountability worksheet. The worksheet itself and a discussion of its significant points follow.



# Financial Integrity Rating System of Texas

## 2004-2005 DISTRICT STATUS DETAIL

<b>Name:</b> PASADENA ISD(101917)			
<b>Rating:</b> Superior Achievement		<b>Last Updated:</b> 8/14/2006 5:04:25 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>	6/24/2006 5:43:41 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>	6/24/2006 5:43:42 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>	6/24/2006 5:43:42 PM	Yes
4	<u>Was There An Unqualified Opinion in Annual Financial Report?</u>	6/24/2006 5:43:42 PM	Yes
5	<u>Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?</u>	6/24/2006 5:43:42 PM	Yes
6	<u>Was The Percent Of Total Tax Collections (Including Delinquent) Greater Than 96%?</u>	6/24/2006 5:43:42 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>	6/24/2006 5:43:43 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>	6/24/2006 5:43:43 PM	Yes
9	<u>Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?</u>	6/24/2006 5:43:43 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>	6/24/2006 5:43:44 PM	Yes
11	<u>Was The Percent Of Operating Expenditures Expended For Instruction More Than 54%?</u>	6/24/2006 5:43:44 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>	6/24/2006 5:43:45 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>	6/24/2006 5:43:45 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>	6/24/2006 5:43:45 PM	Yes

15	<u>Was The Administrative Cost Ratio Less Than The Standard In State Law?</u>	6/24/2006 5:43:45 PM	Yes
16	<u>Was The Ratio Of Students To Teachers Within the Ranges Shown Below According To District Size?</u>	6/24/2006 5:43:45 PM	Yes
17	<u>Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size?</u>	6/24/2006 5:43:46 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>	6/24/2006 5:43:46 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; Operating Expenditures In The General Fund, Then Answer This Indicator Yes)</u>	6/24/2006 5:43:46 PM	Yes
20	<u>Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?</u>	6/24/2006 5:43:47 PM	Yes
21	<u>Were Investment Earnings In All Funds More Than \$15 Per Student?</u>	6/24/2006 5:43:47 PM	Yes

## DETERMINATION OF RATING

<b>A.</b> Did The District Answer ' <b>No</b> ' To Indicators 1, 2, Or 3? <b>OR</b> Did The District Answer ' <b>No</b> ' To Both 4 and 5? If So, 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> ':	
<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 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**

Criteria #1 through #5 are the critical indicators. Any “NO” response in this category is a signal indicator of fiscal distress. These five criteria 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 2004-05 fiscal year, Pasadena ISD had an Unreserved, Undesignated ending General Fund Balance of \$35.7 million and passed all other critical indicator criteria.

### **Fiscal Responsibility**

Criteria #6 through #10 concern fiscal responsibility. Pasadena ISD’s percentage of tax collections easily exceeds the minimum standard of 96%. For the year under review, taxes were collected at a rate of 99.75%. This rate includes both current and delinquent taxes. The District even surpassed the standard by just looking at the collection rate for current year taxes alone, which was 96.7%. Criterion #7 compares the accuracy of the District’s PEIMS data submission to the audit report prepared by our external auditor, Clyde D. Thomas. The variance between the two reports was not material and was caused by the rounding of various numbers. For criterion #8 the debt related expenditures were \$467 per student. This was far less than the standard of \$770 per student. This standard relates to the debt capacity of the District. Criteria #9 and #10 are very similar to the Critical Indicators and Pasadena easily passed these two on audit and full financial accreditation status.

### **Budgeting Indicators**

Items #11 through #14 concern budgeting, management and cash flow practices. The District budgets 59% of its operating expenditures for direct classroom instruction. The District adequately funds its budget and capital projects. Most importantly, as addressed in Criterion #14, the District does not spend cash it cannot afford to spend or recognize as revenue.

### **Personnel Indicators**

Items #15 through #17 address staffing patterns. For the 2004-05 year, the District’s administrative cost ratio was well below that of the State standard of 11.05% at 6.90%. This item is addressed in more detail later in the report. Items #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 criteria, which means understaffing or overstaffing can trigger a “NO” response. The District falls safely within the prescribed ranges for each criterion at 15.7 students per classroom teacher and 7.9 students per staff member.



### **Cash Management Indicators**

The final four criteria deal with cash management practices. #18 concerns the fund balance figure and whether it is too high or low (Variance of +150% or -50%). Pasadena's General Fund Balance for the 2004-05 year of \$57 million was greater than the \$23 million minimum and less than the \$69 million maximum standards as calculated by TEA. Item #19 deals with any decrease in General Fund Balance over two years. Since our fund balance has slightly decreased, we also met this criterion easily. Cash and Investments were greater than \$0, so Criterion #20 was easily surpassed. Investment earnings were approximately \$72 per student, easily exceeding the minimum standard of \$15 per student set forth in Criterion #21. This standard was far exceeded because of the interest earned on our bond funds. In fact, in looking only at the General Fund, investment earnings still exceeded \$32 per student.

### **Summary**

The Pasadena ISD School Board, administration and the community have worked hard to improve the financial position and condition of the District over the past number of 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 items 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.

Briefly, we review a number of business practices not covered by the Financial Accountability Worksheet directly.

### **Financial Strength**

The state of Texas recommends 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 Pasadena ISD, we believe the most significant financial indicator of strength is our ability to meet our cash flow needs from September to December each year without borrowing money. This is due partially to the increased cash flow from TEA to low wealth districts such as Pasadena Independent School

District but more to the fact that our Board of Trustees has a commitment to maintaining a minimal fund balance equal to 12½ percent of the prior year’s operating expenses.

Our Aa3 underlying bond rating by Moody’s further evidences our financial strength. Moody’s believes that our increases in assessed valuation, coupled with significant financial flexibility are characteristics consistent with the Aa3 rating. The District planned to operate at a small deficit and use fund balance to supplement the District revenues in funding the budget for 2004-2005. In spite of using approximately \$5 million of fund balance, the District was able to maintain the minimal fund balance commitment by the Board to Trustees. The District’s long-term trend of conservative budgeting and prudent financial practices continue to rate highly in maintaining our excellent credit rating.

**Operating Cost Management**

Only a small portion of our total General Fund expenditures are flexible or variable in nature. Salaries and benefits comprise the biggest expenditure each year, over 86%. Utility payments fluctuate greatly from year to year, but still make up our second largest single expenditure at 3.35%. Once you remove those large expenditures from the equation, you are left with a small portion of our budget that retains some semblance of control for us. Supplies, materials, travel and training and a few contracted services comprise this remaining balance. We consider these costs to be our controllable operating costs.

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, and of course, it is arguable in nature. 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 Pasadena 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 consistently remained low over the past several years.

<b>Administrative Cost Comparison</b>			
<b><u>Year</u></b>	<b><u>State Limit</u></b>	<b><u>District Actual</u></b>	<b><u>Amount Under Limit</u></b>
1999-00	11.05%	7.09%	\$ 5,384,867
2000-01	11.05%	6.21%	\$6,891,979
2001-02	11.05%	6.97%	\$5,972,789
2002-03	11.05%	6.71%	\$6,940,006
2003-04	11.05%	6.83%	\$7,073,331
2004-05	11.05%	6.90%	\$7,610,638

In a time of rising salaries and increased costs, Pasadena ISD has maintained low administrative costs as a percentage of instructional costs. We have done so via a conscious and concerted effort to bring administrative costs down while funneling 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 where our students are, and getting by as best we can elsewhere.

### **Personnel Management**

The District's longstanding personnel goal is to attract and retain qualified staff, and to offer a competitive salary and benefit package each year. We have offered a highly competitive total compensation package to our teaching staff and a comparable increase to all support personnel. It hasn't always been easy to do so, but each year 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 with Pasadena ISD in the past decade.

### **Cash Management**

The worksheet addresses a couple of cash / investment issues, but only in a very basic manner. The worksheet criteria 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.

Suitability, safety and liquidity are almost redundant. If a security is suitable and safe, it's probably pretty liquid. If it's liquid and suitable, it's safe. State and local policy specify what types of securities we can purchase, and virtually all of them fall within these restrictions. We don't purchase ones that do not fall within our interpretation of these policy restrictions. Certificates of Deposit are legal investments, but they cannot be readily converted to cash without a penalty, so we have not purchased any CD's in quite a few years.

There are a few investments that are legal for us to purchase, but they aren't very marketable. Consequently, we don't buy them. Bonds of the state of Israel are a good example. 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.

Lastly, we perform a quarterly and annual review of investment activity and performance, submitting these quarterly reports to the Board of Trustees for review, as required by law.

### Tax Collections

Criterion #6 discusses tax collections for the year under review. As important as this criterion is from year to year, we felt additional discussion was warranted. The minimum criterion is 96%, which our District has exceeded each year for more than a decade.

<u>For Year Ended</u>	<u>Total Tax Collections</u>
1992	102.9%
1993	101.1%
1994	98.1%
1995	98.2%
1996	100.5%
1997	100.5%
1998	99.5%
1999	99.7%
2000	98.3%
2001	97.6%
2002	97.8%
2003	99.2%
2004	99.7%
2005	99.7%

### Budgetary Planning & Financial Allocations

The District's budget process begins usually in December each year. During the first month of planning, preliminary revenue estimates are developed and shortly thereafter followed by budget allocations for each campus. Next, the department budgets are prepared and a budget preparation guide 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 Pasadena ISD, we allocate funds to campuses based on a number of criteria. They include number of students, types of students, and type of campus. Support departments get funds based on previous year's budgets adjusted (up or down) for future years' needs. Special project requests for amounts supplemental to allocations are considered individually each year. In March, we begin budget consolidation and attempt to calculate state and local tax revenues. At this time, the budget starts to take on some form. April is usually spent reviewing the budget with the Superintendent's cabinet. 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. In odd-numbered years, the legislature is in session, and that complicates and delays our budgeting process. The optimal time for making a public salary decision is May. However, due to the legislature or the Harris County Appraisal District, salary decisions are usually not made until June or July. June and July are busy months budget-wise with special Board workshops. 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.

Our budget process is a proactive and highly participatory one, and 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.

### **Awards and Recognitions**

Pasadena ISD has received the Meritorious Budget Award from the Association of School Business Officials, International (ASBO) for three consecutive years and is awaiting confirmation on a fourth consecutive year. This association has stringent requirements for their award, and it is a credit to the District and its taxpayers to be recognized nationally in such a manner.