



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

For the Year Ending August 31, 2007



**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 77th 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 2006-2007 school year, and budgetary and actual financial data for the 2007 fiscal year ending August 31, 2007.

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 24 criteria with individual weights with the exception of the Critical Indicators. A “No” response in criteria #1, #2, #3, or #4 or to both #5 and #6 automatically result in a rating of Substandard Achievement, so these first six criteria are of utmost importance.

Currently, Pasadena ISD enjoys a rating of “*Superior Achievement*” for the sixth consecutive year, again scoring a perfect 24 out of a possible 24 on the financial accountability worksheet. The worksheet itself and a discussion of its significant points follow.

Financial Integrity Rating System of Texas

2006-2007 DISTRICT STATUS DETAIL



Name: PASADENA ISD(101917) **Publication Level 1:** 6/9/2008 1:55:51 PM

Status: Passed **Publication Level 2:** 8/21/2008 1:46:21 PM

Rating: Superior Achievement **Last Updated:** 8/21/2008 1:46:21 PM

District Score: 85 **Passing Score:** 55

#	Indicator Description	Updated	Score
1	<u>Was The Total Fund Balance Less Reserved Fund Balance Greater Than Zero In The General Fund?</u>	4/18/2008 10:14:47 AM	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>	4/18/2008 10:14:47 AM	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>	4/18/2008 10:14:47 AM	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>	4/18/2008 10:14:47 AM	Yes
5	<u>Was There An Unqualified Opinion in Annual Financial Report?</u>	4/18/2008 10:14:48 AM	Yes
6	<u>Did The Annual Financial Report Not Disclose Any Instance(s) Of Material Weaknesses In Internal Controls?</u>	4/18/2008 10:14:48 AM	Yes
			1 Multiplier Sum

7	<u>Did the Districts Academic Rating Exceed Academically Unacceptable?</u>	4/18/2008 10:14:48 AM	5
8	<u>Was The Three-Year Average Percent Of Total Tax Collections (Including Delinquent) Greater Than 98%?</u>	4/18/2008 10:14:48 AM	5
9	<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>	4/18/2008 10:14:49 AM	5
10	<u>Were Debt Related Expenditures (Net Of IFA And/Or EDA Allotment) < \$250.00 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>	4/18/2008 10:14:49 AM	5
11	<u>Was There No Disclosure In The Annual Audit Report Of Material Noncompliance?</u>	4/18/2008 10:14:49 AM	5
12	<u>Did The District Have Full Accreditation Status In Relation To Financial Management Practices? (e.g. No Conservator Or Monitor Assigned)</u>	4/18/2008 10:14:49 AM	5
13	<u>Was The Percent Of Operating Expenditures Expended For Instruction More Than 65%? (Functions 11, 36, 93, 95) (Phased in over three years, 55% for 2006-2007; 60% for 2007-2008; and 65% for 2008-2009)</u>	4/25/2008 12:01:37 PM	3
14	<u>Was The Percent Of Operating Expenditures Expended For Instruction More Than or equal to 65%? (Functions 11, 12, 31, 33, 36, 93, 95)</u>	4/18/2008 10:14:50 AM	3
15	<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>	4/18/2008 10:14:50 AM	5
16	<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>	4/18/2008 10:14:51 AM	5

17	<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>	4/18/2008 10:14:51 AM	5
18	<u>Was The Administrative Cost Ratio Less Than The Threshold Ratio?</u>	4/18/2008 10:14:51 AM	5
19	<u>Was The Ratio Of Students To Teachers Within the Ranges Shown Below According To District Size?</u>	4/18/2008 10:14:51 AM	5
20	<u>Was The Ratio Of Students To Total Staff Within the Ranges Shown Below According To District Size?</u>	4/18/2008 10:14:51 AM	5
21	<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>	4/18/2008 10:14:51 AM	5
22	<u>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 District Receives 5 Points)</u>	4/18/2008 10:14:52 AM	5
23	<u>Was The Aggregate Total Of Cash And Investments In The General Fund More Than \$0?</u>	4/18/2008 10:14:52 AM	5
24	<u>Were Investment Earnings In All Funds (Excluding Debt Service Fund and Capital Projects Fund) More Than \$20 Per Student?</u>	4/18/2008 10:14:52 AM	4
			85 Weighted Sum
			1 Multiplier Sum
			85 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 7-24)

Superior Achievement	75-85 and Yes to indicator 7
Above Standard Achievement	65-74 or ≥ 75 and No to indicator 7
Standard Achievement	55-64
Substandard Achievement	<55 or No to one default indicator

INDICATOR 19 & 20 RATIOS

Indicator 19	Ranges for Ratios		Indicator 20	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

Criteria #1 through #7 are the critical indicators. Any “No” response in this category is a signal indicator of fiscal distress. These seven criteria revolve around the audit report, fund balance, the auditor’s findings and the academic rating of the District. If General Fund Balance is greater than zero, the auditors issue a “clean” opinion, and the academic rating exceeds Academic Unacceptable, a District will pass the critical indicators. For the 2006-07 fiscal year, Pasadena ISD had an Unreserved, Undesignated ending General Fund Balance of \$43.9 million and passed all other critical indicator criteria.

Fiscal Responsibility

Criteria #8 through #12 concern fiscal responsibility. Pasadena ISD’s percentage of tax collections exceeds the minimum standard of 98%. For the year under review, taxes were collected at a rate of 99.54%. This rate includes both current and delinquent taxes. Criterion #9 compares the accuracy of the District’s PEIMS data submission to the audit report prepared by our external auditor. The variance between the two reports, \$628 was not material compared to the \$497,069,218 total expenditures and was caused by the rounding of various numbers. For criterion #10 the debt related expenditures were \$438 per student compared to the standard of \$250. However, since our student growth over the past five years exceeded 7% and our collection of property taxes per penny of \$844,281 exceeds \$200,000, we earn the maximum of five points for this indicator. This standard relates to the debt capacity of the District. Criteria #11 and #12 are very similar to the Critical Indicators and Pasadena easily passed these two on audit and full financial accreditation status.

Budgeting Indicators

Items #13 through #17 pertain to budgeting, management and cash flow practices. The District budgets 59.75% of its operating expenditures for direct classroom instruction based on the standard set by the National Center for Education Statistics (NCES). The District budgets 65.44% of its operation expenditures for instruction according to the TEA definition. The District adequately funds its budget and capital projects. Most importantly, as addressed in Criterion #17, the District does not spend cash it cannot afford to spend or recognize as revenue.

Personnel Indicators

Items #18 through #20 address staffing patterns. For the 2006-07 year, the District’s administrative cost ratio was well below that of the State standard of 11.05% at 6.92%. This item is addressed in more detail later in the report. Items #19 and #20 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 students per classroom teacher and 7.58 students per staff member.

Cash Management Indicators

The final four criteria deal with cash management practices. Criterion #21 concerns the fund balance figure and whether it is too high or low (Variance of +150% or -50%). Pasadena’s Total General Fund Balance for the 2006-07 year of \$73.3 million was 76% of the Optimum Fund Balance as calculated by TEA. Item #22 deals with any decrease in General Fund Balance over two years. Since our fund balance has not decreased over the past two year period, we meet this criterion. Cash and Investments were greater than \$0, so Criterion #23 was easily surpassed. Investment earnings, excluding debt service and bond funds, were approximately \$77 per student, easily exceeding the minimum standard of \$20 per student set forth in Criterion #24.

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'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 83%. Utility payments fluctuate greatly from year to year, but still make up our second largest single expenditure at 4% closely followed by property insurance at 2%. 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.

Administrative Cost Comparison			
<u>Year</u>	<u>State Limit</u>	<u>District Actual</u>	<u>Amount Under Limit</u>
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
2005-06	11.05%	6.59%	\$8,407,523
2006-07	11.05%	6.92%	\$7,860,819

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. Attracting and retaining a quality teaching staff has been a priority with Pasadena ISD in the past decade second only to our students' welfare and education.

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%
2006	99.3%
2007	99.5%

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 six consecutive years. 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.