JEFFCO
PUBLIC SCHOOLS

Building Bright Futures

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January 31, 2013

Members of the Board of Education
Dr. Cynthia Stevenson, Superintendent of Schools
1829 Denver West Drive, Building 27
Golden, CO 80401-3120

Directors:

Attached is the Second Quarter Financial Report for fiscal year 2012/2013. This report includes cash management and investment schedules, comparative analysis schedules for the General Fund, as well as narrative and comparative schedules for all other district funds. The appendices include staffing reports, performance indicators and a guide to understanding the content within the General Fund expense descriptions.

On November 6, 2013, the District received enthusiastic support from our community with the passage of 3A and 3B, a mill levy override and bond authorization. The passage of the $39 million mill levy override (3A) will help mitigate the need to make the $45 million in cuts planned for 2013/2014. The $99 million in bond funding will help with addressing warm, safe and dry priority projects for the District's capital infrastructure needs. District staff is currently working on the changes to budget for these additional funds and setting up capital project budgets. Work has begun on capital projects this quarter. As a reminder, the District implemented $15 million in reductions detailed in the 2012/2013 Adopted Budget. By adhering to its strategic financial plan, including spending reductions and use of reserves, District leadership has mitigated the impacts of the Great Recession and the ensuing slow economic recovery. Conservative forecasting and spending continue to benefit the District as it weathers these unprecedented times. The December economic forecast from the Governor's Office of State Planning and Budgeting continues to be encouraging with estimates for some additional funding placed in the State Education Fund. However, the Colorado Department of Education has advised Districts to continue with conservative estimates. Additional funding in the State Education Fund does not automatically flow to school districts. It is irresponsible and misleading to suggest to the community that the District will receive a significant increase in funding for 2013/2014. As of November 1, the Governor's Budget Proposal included an additional $10M in funding for Jeffco when compared to last year's State Total Program Revenue.

Following are the quarter-end (unaudited) financial results by fund and noted highlights:

Jefferson County Public School
Top Level Summary by Fund
Year End – December 31, 2012

	Revenue	2011/2012 Y-T-D % of Budget For Revenue	Total Expenses	2011/2012 Y-T-D % of Revised Budget for Expenses	Net Income	Fund Balance (or net assets)
General Fund	$171,387,751	29.41%	$302,655,917	50.00%	$(131,268,166)	$(29,672,308)
Debt Service	83,669,495	102.77%	145,551,083	200.20%	(61,881,588)	14,150,937
Capital Reserve	10,510,308	44.67%	11,118,078	35.92%	(607,770)	26,771,267
Capital Projects	116,872,071	0%	538,150	0%	116,333,921	116,333,921
Grants Fund	14,065,988	29.70%	13,619,474	28.74%	446,514	3,347,187

Continued	Revenue	2011/2012 Y-T-D % of Budget For Revenue	Total Expenses	2011/2012 Y-T-D % of Revised Budget For Expenses	Net Income	Fund Balance (or net assets)
Campus Activity Fund	12,447,414	52.34%	10,549,903	44.32%	1,897,511	12,803,055
Transportation	13,930,342	65.08%	10,359,727	48.40%	3,570,615	3,570,615
Food Services Fund	12,682,604	51.90%	11,529,678	48.06%	1,152,926	8,489,173
Child Care Fund	7,487,442	51.04%	6,784,869	46.02%	702,573	5,060,731
Property Management Fund	831,372	52.62%	602,124	41.38%	229,248	4,729,032
Central Services Fund	1,841,772	52.49%	1,720,250	44.45%	121,522	1,997,642
Employee Benefits Fund	3,159,481	49.14%	3,291,692	45.74%	(132,211)	14,093,008
Insurance Reserve Fund	3,949,005	52.61%	3,611,034	44.15%	337,971	8,891,854
Technology Fund	7,824,180	47.06%	9,680,618	48.85%	(1,856,438)	6,336,683
Charter Schools	31,188,930	82.08%	33,533,692	67.07%	(2,344,762)	19,368,819

Cash Management (pages 1–3):

- Operating cash balances are down $61 million for the quarter. Cash balances will continue to decline until property taxes are received in the spring. $63 million in tax anticipation notes (TAN's) were issued in November to alleviate cash flow shortages until property taxes are received.
- Receipts continue to be similar to the prior year quarter. The Other State Revenue line is lower than the prior year due to cash from one-time State Fiscal Stabilization Funding that was received in first quarter last year.
- Disbursements for payroll were lower than the prior year due to timing of the 3% percent wage reduction. Capital reserve project disbursements are down with less funding for capital projects in 2012/2013.

General Fund (pages 4–10):

- General Fund revenue is $1.2 million lower than the prior year. State revenue is lower due to the decline in students. Property tax delinquent collections have been lower than the prior year. Specific ownership taxes are up $763,764 over the prior quarter.
- General Fund expenditures are $3.6 million lower than the prior year. Expenditures are 50% of budget right at the benchmark for the quarter end.

Debt Service/Capital Reserve/Capital Projects (pages 12–15):

- The Debt Service Fund reflects the advance refunding approved by the Board and completed in September. The District achieved $5 million in savings from the refunding. The budget for the fund will be adjusted after the supplemental budget adjustments in the spring. Principal and interest payments for the December semiannual general obligation debt are recorded.
- The Capital Reserve Fund expenditures are 36% of plan for the quarter. Expenditures are higher in the summer when the majority of work is completed, slow in the fall, and then increase in the spring as the department works with school schedules to complete work.
- The Capital Projects fund is new and reflects the issuance of $99 million in bonds and $17.8 million premium associated with the bonds. Planning work on projects has begun.

Grants Fund/Campus Activity/Transportation (pages 16–19):

- The Grants Fund activity continues to be lower than prior years due to the end of ARRA grants. See page 15 for details of material changes in grants.

- The Campus Activity Fund had lower revenues and expenditures for the quarter compared to the prior year. Timing of events, activities and fundraising impact the collection of revenues and related expenditures.
- Transportation fees increased this school year. Ridership has remained stable and collections of fees have been earlier for this school year.

Enterprise Funds (pages 20–24):

- The Food Services Fund is performing better than the prior year; the majority of costs is higher than the prior year but is being offset with increased federal reimbursements, sales and donated commodities.
- The Child Care Fund is performing better than the prior year. Revenues and expenses are higher than the prior year due to new classrooms in all day kindergarten.
- The Property Management Fund had net income of $229,248 for the quarter. Revenue from building rentals is higher than the prior year.

Internal Service Funds (page 25–29):

- The Central Services Fund has net income of $121,522 for the quarter. The fund is planned to spend down net assets for equipment purchases happening later in the year.
- The Employee Benefits Fund has a net loss of $(132,211) for the quarter. The fund budgeted to spend down net assets for the year as it continues the employee wellness program.
- The Risk Management Fund has net income of $337,971 for the quarter. Claim expenses are higher than the prior year.
- The Technology Fund has a net loss of $(1,856,438) for the quarter, aligned with the plan to spend down reserves. In the second quarter, Information Technology continued to partner closely with instructional leadership in support of multiple initiatives. The Learning Management System (LMS) that was implemented in August is becoming an increasingly popular collaborative tool among teachers and students, while work has begun on policy to address growing demand for students to utilize their personally-owned mobile devices in support of learning. Initial work was completed for a wireless upgrade in the schools, while the multi-year upgrade to the district's phone system is on schedule to be completed this calendar year.

Charter Schools (pages 30–32):

- Four charter schools have yellow flags for the quarter.
- Mountain Phoenix and Rocky Mountain Deaf School are not borrowing at the end of the quarter but continue to be monitored.
- Two Roads High School is borrowing $(25,875) for the quarter end, within the approved borrowing by the District.
- Collegiate Academy was approved to borrow up to $(150,000). Collegiate is borrowing $(51,882) for the quarter and has made reductions for the next 6 months to stop the deficit from growing.

ON THE RADAR:

In addition to the attached reports, following is an update on processes and current issues in finance:

<u>Facilities Maintenance Program Performance Evaluation</u>:
Facilities Management (FM) staff continues to work on process efficiency gains and system changes. To assist with these ongoing initiatives, IT has temporarily assigned two staff members to work directly with FM staff on a daily basis. The Asset Lifecycle Management (ALM) and the Computerized Maintenance Management System (CMMS) have been operational since July 2011.

Five key initiatives and respective statuses of the current ALM stabilization project are:

- Clean-up of all old work orders where labor was not posted—Labor is now posting to all work orders.
- Update and complete all preventative maintenance (PM) schedules—The Fall PM schedules were entered and completed as planned. The fall, winter and spring rotations have been published.
- Complete the listing of all facility assets —Asset hierarchy was updated, customization of the assets by site will be worked on through the end of this FY.
- Billings current for school funded work orders—Billings for funded work orders are completed by the 15th of every month. Billings were completed on September 14, October 16, and December 7, 2012, and January 8, 2013. Total billings through 2nd quarter total $273,823.
- Billings current for risk management funded work orders related to storm damage or vandalism—Monthly meetings were held to review progress of work. Billings were completed on December 5, 2012, in the amount of $190,002.

The key initiatives related to process improvement include: development of Key Performance Indicators (KPI's), documentation of the work order work flow and completing training documentation that includes both process and step-by-step instruction on use of ALM. These initiatives will continue throughout FY 2013. Monthly monitoring reports for vandalism, status tracking by zone/group and labor analysis were completed and rolled out in December 2012.

Annual Capital Planning and District Wide Facilities Master Plan:

The Annual Capital Planning process was initiated in the 4th quarter, fiscal year 2012. Capital Planning is based on the facility condition assessment data initially collected in 2009, which included life cycle information from the State Wide Financial Assistance Priority Assessments. All condition assessments are then updated on a three year cycle which ensures that a facility is visited and the assessment is updated and validated at least once every three years. Below is a recap of the individual components of the Capital Planning that have ongoing tasks.

Facility Condition Assessments: Keeping the facility condition assessment database current and accurate is an ongoing process throughout the year which includes on-site assessments and review meetings with maintenance staff. Fifty-three site assessments were completed by the start of school, August, 2012. Semi-annual reviews of the deficiencies with Facilities Maintenance staff were completed in October 2012. Collected data and updated RS Means cost information (third party) has been has been input in the Facility Assessment and Condition Tracking System (FACTS) system.

Annual Enrollment Projections: Interactive planning meetings to update the Five-year enrollment forecasts were held in October 2012. The Preliminary Five year projection was presented to the Capital Asset Advisory Committee in December. The report will be forwarded to the Superintendent and executive management in January 2013.

Issue 2012 Summary of Findings: Staff is working on incorporating the updated assessment and enrollment data. Links to the previous Summary of Findings and the Enrollment Projections Report are provided on the District Facilities Webpage. Final FY 2013 Summary of Findings will be forwarded to the Superintendent and executive management in January 2013.

Capital Transfer Allocation: Utilizing the current facilities assessment data, staff from the departments of Facilities Planning and Construction, Facilities Management department, Information Technology and Budget developed a list of capital projects to be completed in the summer of 2013. The final list of projects was presented to the Capital Asset Advisory Committee in November 2012.

2012 Bond: In November 2012, voters approved a $99 million bond package. Bid packaging and a master schedule were completed in December. Consultants were selected for projects that are scheduled to be completed in 2013.

Technology Personalized Learning:
Information Technology is working closely with Educational Resource and Design in support of innovative efforts around personalized instruction. Specifically, field testing is continuing for our nationally acclaimed, custom-developed electronic curriculum system, while instructional and technology leadership are collaborating to seek funding for an innovative instructional system (IIS) in support of personalized instruction. Once developed, the IIS will consolidate data from multiple instructional systems into one dashboard, and utilize predictive analytics to recommend just-in-time instructional strategies and resources for teachers.

Technology Phone System:
The contract was awarded to CenturyLink (formerly Qwest Communications) to install a Cisco Unified Communication platform that replaces the District's eighteen-year-old analog phone system. The rollout of the replacement system is a multi-year process that must be phased in, tested and stabilized to ensure a stable and secure environment. Delay of implementation would jeopardize stability of system. The new phone system is primarily funded by federal ERATE revenues and IT reserves. Central core equipment has been installed at both the Education Service Center and the Quail facility. Five phases and one hundred sites have been completed to date (approximately 64 percent); 6,698 new handsets have been installed (3,434 remain). The District voice mail system was originally planned to be migrated over to the new platform by the end of November 2012 but technical issues will prevent this migration—it is tentatively scheduled for the middle of February 2013. Remaining sites to migrate: Elementary Schools 32, Middle Schools 11, High Schools 8 and other sites 1. Project is on schedule, and completion is planned for December 2013.

Disaster Recovery Project (DR):
To date, disaster recovery (DR) plans have been developed and tested for 48 systems and services. All new systems and services are reviewed and added as they are moved into the production environment. A secondary Internet circuit independent from the District's primary 500Mb circuit has been installed at the DR location at Quail with 50 Mb capacity and the capability to increase to 1GB. This was established due to the demand on Internet services and reliance on cloud based systems and services (Schoology, Google apps, etc.). Disaster Recovery drills for the 2012/2013 fiscal year have been completed on July 17, October 24 and December 17, 2012. Two more drills are scheduled for April and June this fiscal year.

Compensation & Benefits:
The District continues its review and analysis of compensation, including market comparisons with surrounding districts. The recruitment and retention of top performing employees is becoming more challenging as the district has declined in its overall compensation rankings when compared to surrounding Denver-metro districts. Additionally, a committee tasked with planning for changes required by Health Care Reform continues to evaluate significant systemic changes to ensure compliance with the federal legislation. Both costs and structures will change to accommodate the requirements of the Act.

Special Education:
The special education expense line in the general fund is projected to be over budget. This is due to the increase in students with intensive needs, beyond the Districts services, who are placed into locations outside of the District. For example, the number of students that have been placed into a high-cost autism center has nearly doubled from 2012 to 2013. The overall cost to the District for students placed out of district for services is expected to continue escalating.

Enrollment:
Overall Jeffco membership has declined by more than 250 students. The components of the change are a drop in membership at neighborhood schools of nearly 650 students and an increase in the charter membership of nearly 400. Total membership is then converted to an FTE equivalent by adjusting for part-time students and excluding any students who are not eligible for funding. The FTE count can be averaged over five years as allowed under the School Finance Act as a mechanism to smooth the loss of funding for districts with perpetual declining enrollment. The year over year decline for Jeffco in funded pupils is just over 300.

2013/2014 Budget Development
The passage of the $39M mill levy override (MLO) provided much relief for the 2013/2014 Budget. The district had projected the need for $45M in reductions in the 2013/2014 school year; the $39M will mitigate much of the need. Additionally, more favorable news from the State for 2013/2014 indicates an increase in revenues. The District is not projecting reductions at this time, but planning for a relatively flat revenue stream with minimal flexibility. One-time unplanned funding from the 2013 spring property tax revenues will allow the reinstatement of two furlough days in the spring ($5M), partially restore 2012/2013 reductions in technology ($750K), support instructional needs in the classrooms ($4.5M), and accelerate secured entry project at elementary schools ($600M), with the majority of these one-time dollars going to restore reserves. As reserves had been spent down significantly over the past three years, this one-time infusion of funds will allow the district to bolster reserves in preparation for potential future economic turbulence. A supplemental appropriation will be required for Board authorization to spend any dollars beyond the amount appropriated in the 2012/2013 adopted budget. The new on-going MLO funding will be incorporated in the 2013/2014 proposed budget. Compensation negotiations, state revenues, new state legislation (proposed amendments to the School Finance Act) could all impact planning for the 2013/2014 Budget. Communication related to the proposed budget will ramp up over the next few months.

The District remains in sound financial condition. We will continue to spend conservatively and diligently monitor economic variables on the radar. This 2nd Quarter Financial Report will be presented to the Board of Education on Thursday, February 7, 2013. It is always helpful if you have any questions, to let me know in advance so that we can formally present and answer those questions during the meeting.

This will certify that the information contained herein is an accurate and fair representation of the District's financial status as of the date shown.

Lorie B. Gillis

Lorie B. Gillis
Chief Financial Officer