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Members of the Board of Education
 1829 Denver West Drive, Building 27
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Directors:

Attached is the Second Quarter Financial Report for fiscal year 2015/2016. This report includes cash management and investment schedules and 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.

The General Fund is performing better than plan for the end of the quarter. General Fund reserves are negative due to the timing of property tax receipts, which are received in the spring. A line of credit is in place to cover any cash shortfalls in January or February, when cash balances are at their lowest. Property taxes are 46 percent of the General Fund revenues. The October student one day count was higher than the prior year by 292 full time enrollments (FTE). The charter school FTE grew 816 and the district managed schools lost 524 FTE. The impact from the loss of FTE will be reflected in the General Fund as less state equalization funding and a lower share of the mill levy overrides. The 2015/2016 budget did not assume a loss of FTE in the current year. Adjustments to school budgets and savings from retirement and turnover savings are anticipated to help offset this loss of funding. On January 14, 2016, the Board of Education approved the return of the prior year \$15 million underspend back to the General Fund from the Capital Reserve Fund. This move will be reflected in the Third Quarter Report. A supplemental budget for the state has been submitted for 2015/2016 that is pending legislative approval. This supplemental request will keep the excess funds for statewide growth in students in K-12 education. The result will be a buy down in the current year negative factor. For the district, this change will offset the loss in funding from the decrease in FTE's.

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

Jefferson County Public School
 Top Level Summary by Fund
 Quarter End – December 31, 2015

	Revenue	2015/2016 Y-T-D % of Budget For Revenue	Total Expenses	2015/2016 Y-T-D % of Revised Budget For Expenses	Net Income	Fund Balance (or net position)
General Fund	\$187,443,828	27.54%	\$322,273,589	47.24%	\$(134,829,761)	\$(63,068,639)
Debt Service	365,214	0.73%	39,922,691	80.21%	(39,557,477)	19,138,773
Capital Reserve	11,403,112	50.84%	13,460,948	48.87%	(2,057,836)	34,481,070
Building Fund	22,671	18.40%	16,935,713	57.37%	(16,913,042)	15,062,517
Grants Fund	18,991,023	36.37%	15,567,393	29.82%	3,423,630	10,884,033
Campus Activity Fund	12,799,820	50.21%	11,046,465	43.25%	1,753,355	12,223,736
Transportation	16,416,520	61.76%	11,017,929	41.45%	5,398,591	6,003,002

<i>Continued</i>	Revenue	2015/2016 Y-T-D % of Budget For Revenue	Total Expenses	2015/2016 Y-T-D % of Revised Budget For Expenses	Net Income	Fund Balance (or net assets)
Food Services Fund	12,656,930	49.78%	11,500,085	45.02%	1,156,845	8,476,809
Child Care Fund	6,142,975	49.70%	6,280,369	44.19%	(137,394)	6,113,671
Property Management Fund	1,044,087	48.90%	1,045,126	46.64%	(1,039)	5,479,492
Central Services Fund	1,757,357	53.91%	1,490,077	47.04%	267,280	1,976,896
Employee Benefits Fund	2,845,011	48.29%	3,408,377	48.80%	(563,366)	13,257,203
Insurance Reserve Fund	2,857,785	49.07%	2,895,100	37.41%	(37,315)	7,530,726
Technology Fund	13,061,516	50.12%	12,514,619	44.06%	546,897	16,048,922
Charter Schools	39,026,102	54.51%	33,959,453	45.68%	5,066,649	33,282,241

Cash Management (pages 1–3):

- Cash balances are higher than the prior year due to underspend from retirement and turnover savings. The \$15 million transferred to the Capital Reserve Fund at the end of the prior year remains in reserves. Cash reserves will continue to decrease until property tax revenues increase in March. The district will use a line of credit to cover any potential cash shortages in February. A line of credit was issued in the prior year but never drawn upon.
- Cash receipts increased over the prior year primarily from increased state revenues.
- Cash disbursements for payroll and benefits increased over the prior year with compensation and PERA increases. Licensed staff increases were processed in September.

General Fund (pages 4–12):

- General Fund state equalization funding and property tax revenue will be lower than budget due to the loss of student FTE. Property tax revenues are negative for the quarter end as charter schools are funded quarterly, prior to receiving the revenue from the county. Property tax revenues are low for the quarter compared to budget due to the timing of property tax collections which will predominately occur in the third quarter. Year to date revenues have increased over the prior year in Specific Ownership Tax, State Share Equalization and All-Day Kindergarten tuition.
- General Fund expenditures are at 47 percent of budget, lower than the quarterly benchmark. Savings from retirements and turnover as well as unfilled vacancies are causing lower actual costs than expected. Total expenditures are higher than the previous year by 3 percent, primarily due to wage increases and additional benefit costs related to PERA increases and Affordable Care Act mandates.
- Fund balance for the General Fund ended the quarter at \$(63,068,639). Fund balance will begin to rebuild in the third quarter with property tax receipts. Fund balance is budgeted to be spent down \$(1,763,295) for the year due to the use of school carry forward reserves.

Debt Service/Capital Reserve/Capital Projects (pages 14–17):

- The Debt Service fund shows a spend down of fund balance in the second quarter because principal and interest payments on general obligation debt were made in December. Property taxes in the spring will rebuild the balance for future debt payments.
- Capital Reserve project spending has decreased in the second quarter due to the completion of summer projects. The fund ended the quarter slightly below the budgeted benchmark of 50 percent.

- The Building Fund – Capital Projects is for the 2012 voter approved bond program. Expenditures are at 57 percent of budget due to the large amount of construction work taking place in the summer.

Grants Fund/Campus Activity/Transportation (pages 18–21):

- Grants Fund activity changes from year to year with grants ending, new grants received or changes in awards. The major grants from the prior year that ended were BEST grants for charter schools.
- Campus Activity Fund revenues are tracking below the previous year. However, expenditures are tracking very close to the prior year. The timing of events, activities and fundraising impacts the collection of revenues and related expenditures.
- The Transportation Fund revenues are higher from increases in state transportation funding. Expenditures are higher from compensation and benefit increases, but the fund is experiencing savings related to fuel costs.

Enterprise Funds (pages 22–26):

- The Food Services Fund is experiencing a decline in meals served which has resulted in lower revenues and expenses, but the fund is performing well despite the down turn in sales.
- The Child Care Fund has a net loss of \$(137,394) for the quarter. The all-day kindergarten tuition programs moved to the General Fund in the current year. The schools are continuing to spend down reserves built in prior years for kindergarten. Reserves for this activity are planned to be zeroed out by the end of the year.
- The Property Management Fund has a net loss of \$(1,039) for the quarter. Revenues are comparable to the previous year and expenses are down slightly.

Internal Service Funds (page 27–31):

- The Central Services Fund has net income of \$267,280 for the quarter, higher than the prior year. The printing department had increased revenues from printing jobs for start of school related to Math Expression workbooks.
- The Employee Benefits Fund had a loss of \$(563,366) for the quarter; a loss has been budgeted for the year reflecting the use of one time funds dedicated for employee wellness programs. Dental and vision claims are trending higher than the previous year due to enhanced services provided by the plans.
- The Insurance Reserve Fund has a net loss of \$(37,315) for the quarter end. Claim costs are running higher than planned from storm and auto claims. The fund has adequate reserves for claims coverage.
- The Technology Fund has net income of \$546,897 for the quarter end. Salary expenses continue to be low due to unfilled positions. Expenses related to Mobile Device Readiness are expected to increase during the second half of the fiscal year.

Charter Schools (pages 32–34):

- No charter schools are borrowing at the end of the quarter. Collegiate Academy formally closed their loan with the district.

ON THE RADAR:

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

Facilities:

In December 2015, Facilities gave a presentation to the newly elected Board of Education on the district's real estate portfolio with a recommendation to reconsider the Candelas K-6 in favor of a K-8 school. Also discussed was a recommendation to consider completion of Sierra Elementary School Phase II and reevaluation of the financing model. The Board of Education approved the recommendations. Design of the K-8 is proceeding and GH Phipps has been selected as Construction Manager/General Contractor for the project. Design work will begin on Sierra Elementary and issuing certificates of participation to finance the two schools is being prepared for Board approval.

The *Summary of Findings and Enrollment Projections Reports* for 2015/2016 are being prepared and are on schedule for a February 2016 release.

Hiring and Staffing:

Colorado's unemployment rate is 4 percent according to September reports; ranked 10th lowest in the nation. This is impacting the district's ability to hire for some substitute positions such as substitute teachers, custodians and bus drivers. Because the district relies on substitutes to fill in when on-going employees cannot be at work, these substitute groups are critical. In addition, entry level positions are routinely hard to recruit and fill during strong economic times. The budget limitations have created pent up salary demand on the part of on-going employees and may have contributed to the turnover trends seen over the past two years with an increase in resignations across all three broad categories of employees: administrative, teachers and classified. Recruiting remains strong for some categories of employees, but there are specialty areas that continue to see smaller applicant pools and have unfilled positions: management positions requiring specialty skills, nurses, special education special service providers, dual language teachers, math teachers, are a few of these positions.

Health Care Reform:

Programming work to comply with various provisions of the Affordable Care Act (ACA) continues. The district will shortly be submitting the first 1095C form to the IRS to report our compliance with offering medical coverage to full-time employees. Several key ACA provisions have been delayed (2018 40 percent excise tax has been deferred to 2020) and the future requirement to automatically enroll full-time employees into a medical plan (previously estimated to cost the district an additional \$4 million annually) has been repealed. Due to ongoing measurement periods to identify employees who qualify for coverage based on hours worked and the requirement to hold coverage throughout a stability period, it is difficult to accurately predict the additional cost these regulations have added. For fiscal year 2016, the amount of \$3 million was set aside to accommodate for implementation expenses and coverage of additional employees.

2016/2017 Budget Development:

The budget office and district leadership, in partnership with school staff and communities, have implemented student-based budgeting (SBB) at schools for the 2015/2016 budget. Extensive support is being provided to assist principals and school secretaries with the transition to this new budgeting structure. SBB will result in increased funding equity, school autonomy and transparency. Early feedback from principals has been positive on the SBB budget model.

The 2016/2017 budget development process has begun. Principals have been planning for the 2016/2017 school year by meeting with their staff and accountability groups to develop school priorities and are in the process of allocating their SBB budgets for 2016/2017. In parallel to SBB, the budget office has launched phase 1 of the new budgeting process for departments called Budgeting for Outcomes (BFO). Departments selected to participate in BFO have begun the process while all other departments continue to work with the budget office as they have in the past. Staff continues to research and participate in training in order to provide the highest level of support for both SBB and BFO.

District budget staff continues to observe and evaluate legislation and forecasts from the state to anticipate changes for the 2016/2017 budget. Currently, the governor's proposal for K-12 school funding does not look positive but since that forecast, the school district's local share of funding from property taxes increased significantly due to increased assessed valuations. This resulted in freeing up state share funding previously thought to be needed for school finance. The state has not indicated how it will use these excess funds but has noted other needs at the state level in addition to K-12 education. Inflation also continues to drop compared to prior forecasts which would lower funding. The forecasts for next year will continue to change, and we will continue to monitor and report the impact of these changes to the Board of Education.

The district remains in sound financial condition. We will continue to spend conservatively and diligently monitor economic variables.

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.

A handwritten signature in black ink that reads "Kathleen Askelson". The signature is written in a cursive style with a large initial 'K'.

Kathleen Askelson
Chief Financial Officer