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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 2014/2015. 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.

The General Fund ended the quarter better than anticipated trends. Revenues are low due to the timing of property tax which is collected in the spring, and expenditures are low due to compensation savings related to retirements and vacant positions. In November 2014, compensation increases for licensed staff were processed which included salary increases, retroactive payments and one-time stipends. The FY 2015 General Fund Budget contains an \$18.2 million placeholder for compensation increases and \$4.2 million in budgetary savings from retirements and turnover. In addition, \$12.8 million in non-compensation increases was budgeted in FY 2015 for increased math and literacy instruction and the continued implementation of mobile device readiness. District staff continues to monitor budgets and operate within these parameters.

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, 2014

| | Revenue | 2014/2015 Y-T-D % of Budget For Revenue | Total Expenses | 2014/2015 Y-T-D % of Revised Budget For Expenses | Net Income | Fund Balance (or net position) |
|--------------------------|---------------|---|-------------------|--|-----------------|-----------------------------------|
| General Fund | \$186,539,661 | 28.39% | \$311,412,772 | 47.60% | \$(124,873,111) | \$(63,575,228) |
| Debt Service | 441,055 | .85% | 39,174,113 | 78.61% | (38,733,058) | 17,135,676 |
| Capital Reserve | 9,545,792 | 50.10% | 9,677,937 | 51.18% | (132,145) | 16,668,187 |
| Building Fund | 102,163 | 82.92% | 28,839,920 | 60.23% | (28,737,757) | 56,164,345 |
| Grants Fund | 23,591,143 | 40.65% | 21,321,330 | 36.74% | 2,269,813 | 8,256,484 |
| Campus Activity Fund | 12,895,883 | 52.96% | 11,073,611 | 45.38% | 1,822,272 | 12,377,002 |
| Transportation | 16,286,291 | 61.91% | 10,873,363 | 41.33% | 5,412,928 | 6,000,745 |
| Food Services Fund | 13,164,031 | 52.89% | 12,114,699 | 48.19% | 1,049,332 | 7,769,905 |
| Child Care Fund | 8,900,808 | 52.76% | 7,792,497 | 47.00% | 1,108,311 | 6,774,085 |
| Property Management Fund | 1,059,264 | 57.66% | 1,001,661 | 47.50% | 57,603 | 5,338,301 |
| Central Services Fund | 1,646,536 | 50.51% | 1,582,982 | 48.08% | 63,554 | 1,530,085 |

| <i>Continued</i> | Revenue | 2014/2015 Y-T-D % of Budget For Revenue | Total Expenses | 2014/2015 Y-T-D % of Revised Budget For Expenses | Net Income | Fund Balance (or net assets) |
|------------------------|------------|---|-------------------|--|---------------|---------------------------------|
| Employee Benefits Fund | 2,739,837 | 47.68% | 3,122,339 | 47.34% | (382,502) | 13,837,441 |
| Insurance Reserve Fund | 2,971,232 | 49.10% | 3,074,062 | 63.85% | (102,830) | 7,279,771 |
| Technology Fund | 13,093,644 | 50.14% | 10,821,539 | 45.65% | 2,272,105 | 14,191,833 |
| Charter Schools | 54,407,721 | 76.40% | 45,401,630 | 75.26% | 9,006,091 | 24,975,083 |

Cash Management (pages 1–3):

- The second quarter cash balance is \$120 million, \$30 million higher than the prior year. Cash balances are low in the second quarter due to the timing of property tax receipts that are collected in the spring. A line of credit will be used to cover potential cash flow shortages in February instead of liquidating long term investments or issuing tax anticipation notes (TAN's). The long term investments in Cutwater are not as liquid as the prior year thus, for the amount needed, a line of credit is more economical than issuing TAN's.
- Cash receipts increased over the prior year primarily from increased state revenues and grant receipts.
- Cash disbursements for payroll and benefits increased over the prior year with compensation and PERA increases. Capital reserve project disbursements are lower due to less funding for projects. Non-compensation costs increased with the new math curriculum purchases, purchased food payments and increases in grant spending.

General Fund (pages 4–10):

- General Fund revenues are up 6 percent over the prior year. State funding and specific ownership tax revenues have increased. Revenues are only at 28 percent of budget due to the timing of property tax receipts.
- General Fund expenditures are at 47 percent of budget. Planned compensation increases which include retro pay and one-time stipends for licensed staff were made in the second quarter. General Fund expenditures are trending below budget due to salary savings related to retirement savings and vacant positions. Transfers for bus purchases and information technology capital were moved from the Capital Reserve Fund to their respective funds, and Colorado Preschool Program (CPP) funding is now directly receipted to the child care fund.
- Fund balance for the General Fund decreased to \$(63,575,228) with the use of reserves for the quarter end. Reserves are low due to the timing of property tax receipts. The Board of Education policy for reserves is budgeted to be maintained for FY 2015 and undesignated reserves to grow over the prior year. The positive growth in fund balance was crucial in both the Moody's rating improvement and having no financial warning indicators from the state auditor's office.

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


- The Debt Service Fund reflects the December payments for general obligation debt. Property tax revenues for this fund are also received in the spring.
- Capital Reserve project spending has decreased in the second quarter and is expected to meet its budgeted target for FY2015. The fund will require a supplemental budget adjustment to appropriate project balances for multiyear projects.

- The Capital Projects Fund is for the 2012 voter approved bond program. Expenditures for the fund are at 60 percent of budget due to the majority of construction work taking place in the summer when schools are not in session.

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

- Grants Fund revenues and expenditures increased over the prior year. Details on individual grant changes are on page 16 of the quarterly.
- The Campus Activity Fund revenues are relatively unchanged compared to the prior year. Expenditures are higher than the previous year but only at 45 percent of budget. The timing of events, activities and fundraising impacts the collection of revenues and related expenditures.
- The Transportation Fund transfer increased due to special education costs and the relocation of budget from the Capital Reserve Fund to purchase buses.


Enterprise Funds (pages 20–24):

-  Food Services Fund revenues for the quarter are higher than the previous year due to increases in both meal prices and participation. Food prices as well as other expenditures will be monitored closely to evaluate changes that may be needed to end the year as planned.
- The Child Care Fund has net income of \$1,108,311. This is comparable to the prior year and is performing better than planned.
- The Property Management Fund has net income of \$57,603 for the quarter. Revenue is higher than the previous year due to stadium concession revenues.

Internal Service Funds (page 25–29):

- The Central Services Fund has a net income of \$63,554 for the quarter. The fund is expected to meet budget for both revenues and expenses.
- The Employee Benefits Fund has a loss of \$(382,502) for the quarter. Revenues are lower than the previous year due to a decline in participation in the dental and vision programs.
- The Insurance Reserve Fund has a net loss of \$(102,830) for the quarter end. The Safety and Emergency Management department transferred to the General Fund for FY 2015. The loss on the write-off of vehicles is creating the year-to-date loss.
- The Technology Fund has net income of \$2,272,105 for the quarter end. Salary expenses are low due to unfilled positions.

Charter Schools (pages 30–32):

-  Three charter schools have yellow flags for the quarter end.
- Rocky Mtn. Deaf School is borrowing at the end of the quarter. The school has outstanding receivables of \$213,784 due from other districts. Mountain Phoenix and Collegiate Academy are not borrowing at the quarter end. Two Roads Charter school has 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:

Licensed Compensation:

The FY 2015 compensation plan approved by the Board was implemented in November 2014. Adjustments to base pay, retro payments and one-time stipends were included in this implementation. Individuals who have filed grievances pertaining to evaluations will be paid accordingly once that process is complete. The estimated dollar amount from changes in evaluations could range from \$300,000 to \$500,000. This increase is projected to be covered by current year savings in salary lines.

First Quarter Facilities Update:

- Building Maintenance – Retirements and a shortage of trained technicians continues to have an impact on the staffing of the Building Maintenance department. Open positions are being filled with internal and external candidates. The preventative maintenance program continues to be beneficial, demonstrated by a 47 percent decline in outstanding work orders over the same period last fiscal year. A mentorship program has been implemented to train and educate technicians to develop a leadership pool within the department.
- Site Maintenance – Implementation of the \$238,000 grant from Denver Water has begun. The sophisticated computerized controllers will be operational for the 2015 irrigation season. The district is having discussions with Denver Water about a 2015 grant. A team dedicated to school athletic fields has been formed and will be in place in early spring. Design work to convert existing school irrigation to water consumption efficient automated systems has begun; pricing will be available in the third quarter funded by Capital Reserve.
- Environmental Services – Pest control has shifted to Environmental Services (ES). Design work for the \$835,000 Natural Disaster Grant from the Colorado Department of Public Health and Environment for work at Mt. Evans Outdoor Lab School for sanitary sewer improvements and a wastewater treatment facility is in progress. These improvements will complement work completed under the FEMA grant covering the damage the site experienced in the 2013 flood. ES is monitoring the design of improvements to mountain area water/waste water facilities that will be under construction in 2015.
- Facility Service Desk – The Facility Service Desk (FSD) continues to be managed by the director of Central Services and is implementing new business processes and expanding the use of Asset Lifecycle Management (ALM). Key initiatives related to process improvement include: development of Key Performance Indicators (KPI's), documentation of the work order work flow, accounting processes, reporting and completing training documentation that includes both process and step-by-step instruction on the use of ALM. These initiatives will continue through FY 2015. The Director of Central Services was instrumental in securing a Regional Air Quality Council Grant to install Zonar, GIS systems on white and yellow fleet vehicles.
- Annual Capital Planning and District-Wide Facilities Master Plan – Capital Transfer Allocation: The plan for the 2015 Allocation is complete, consultants selected, project managers assigned, schools notified and design work in progress.
 - As a result of the voter approved 2012 Bond, Priority One and Two deficiencies have been significantly reduced allowing Capital Transfer, Maintenance and Operations (M & O) Funds to be allocated toward site, exterior and interior improvements. Savings to M & O will continue to fund

deferred maintenance improvements and will include interior door hardware, paving sealcoating, exterior painting and a tennis court restoration pilot program.

- In November 2012, voters approved a \$99 million capital renewal bond package. 2015 marks the third year of the program and also may be the most challenging from a construction cost perspective. Inflationary pressure along the Front Range is seeing increases of 20 to 30 percent. A shortage of trained technicians and labor in general is a contributing factor. Construction Management is committed to completing the scope of work approved by the voters.
- Assessment and design work associated with the 2015 Capital Transfer is nearing completion and projects are starting the bidding process. The work will include interior and exterior improvements, irrigation, furnishings, playground equipment, energy conservation measures and water-wastewater improvement projects.
- Energy Management – Decline in natural gas prices have helped to offset the very cold weather experienced in November and December 2014. Installation of de-stratification fans took place in two high schools over winter break. Design work is completed for two 2015 projects that include interior LED lighting at an elementary and a middle school. Working with Site Maintenance, Energy Management has opened discussions with Denver Water to apply for a second irrigation controls grant.
- Custodial Services – Custodial Services (CS) has aggressively reduced the number of vacant positions from about 40 this time last year to fewer than 10 today. CS is working closely with Facilities to upgrade small and large equipment at school sites. CS has also created training workshops for employees to improve knowledge and in turn improve service to the schools.

Technology Phone System:

The initial Unified Communications (UC) contract was awarded to CenturyLink (formerly Qwest Communications) in 2010 to install a Cisco UC platform that replaces the district's 20-year-old analog phone system. A request for proposal (RFP) to complete the remaining work (emergency responder) was awarded to ISC. The UC project was completed in December 2014. This project was funded primarily with Federal ERATE revenues. The legacy Nortel system will be de-commissioned in the second half of 2015.

Disaster Recovery Project (DR):

Information Technology remains committed to ensuring system availability. Recovery processes are tested on a quarterly basis for a subset of the total systems and annually for the entire enterprise. There are 31 systems that have been identified as critical and as such are subject to recovery testing. This list is dynamic and is re-evaluated on a semi-annual basis. The DR tests for the fiscal year 2014/2015 are October 27-31, 2014, December 15-19, 2014, and March 16-20, 2015, for the subset of systems tests and the entire system test is to be held on June 15-19, 2015. In the December 15-19 test window, various PeopleSoft applications and the Hyperion application were tested. PeopleSoft had mostly successful test ratings with a few sub-applications meeting a "partial success" rating whereas, Hyperion tested successfully. Any deficiencies were noted and will be worked with the goal of a successful test during the next scheduled testing window. During the second quarter, there was a power outage at the Education Center on October 17 that started at 11:55 a.m. and lasted until 12:25 p.m. Service to district school sites and remote administrative sites were unaware of the outage due to our DR program. Our uninterruptible power supply that protects the data center and our generator maintained levels until the traditional Xcel power was restored allowing staff to perform their tasks without any issues.

Classroom Dashboard:

Information Technology partners closely with the Educational Research and Design team in support of innovative instructional efforts. This technology tool will consolidate data from multiple instructional systems into one dashboard and utilize instructional analytics to recommend just-in-time learning strategies and resources for teachers. In addition to the internal data integration challenges, there are emerging concerns about the internal infrastructure necessary to support the application at full-scale (all schools). The infrastructure team is working closely with the vendor to analyze the proposed architecture and performance “profile” of the application with possible modifications to earlier infrastructure estimates and any budget implications for expanding that internal capacity.

Mobile Device Readiness (MDR) initiative:

This initiative is a multi-year project to enhance the network infrastructure needed to enable the use of thousands of mobile devices used in support of instruction. All educational sites have been migrated to the new wireless platform since the project began in the fall of 2012. All elementary schools are now on the new hardware to meet increased demand and in time for the assessments scheduled for the spring of 2015. The total cost of the Meraki wireless upgrade is expected to be between \$5.5 million and \$6 million. The overall program (core equipment, fiber network, wireless improvement, etc.) is expected to cost \$22 million over five years and was part of the BOE supplemental request last fiscal year. Metrics are being developed around “bring your own devices” (BYOD) usage and will be provided when available through the BOE weekly update.

- Core Network Equipment
 - Edge equipment (firewall, router, IPS and filtering) purchased and implemented over the summer of 2014. Provides 10gb capacity.
- Fiber Network
 - Fiber design along with agreements with the Colorado School of Mines and Front Range GigaPop executed. Fiber Lightwave equipment purchased. New 10gb resilient fiber ring has been delayed due to issues associated with NREL. Revised timeline February–March.
- Wireless
 - All educational, transportation, outdoor labs and administrative sites have been converted to the new Meraki wireless system.
 - Temp buildings are currently being upgraded to include wireless access in every active building. The upgrade is scheduled to be completed by the second half of fiscal year 2015.
- Additional support technicians
 - Three additional technicians have been hired, trained and are working with systems: two technicians for the Network Support Services team to keep up with the growing number of devices in the schools; and one for the wireless team to help administer the new wireless system.
- Mobile Device Management
 - Software system purchased and implemented summer 2014 for device provisioning and management. Support teams are working through final implementation configurations with iPads and Chromebooks in classrooms.
- Virtual Desktop Infrastructure (VDI)
 - Work has commenced to build out test sites in order to determine feasibility of a VDI implementation. Production rollout is tentatively targeted for FY 2016.

Data Governance:

For the second quarter, Information Security, ETS and Purchasing departments reviewed 10 systems using the district's new data privacy and security standards. Four additional systems are currently under review. The review process (vetted through the Technology Data Privacy Advisory Committee) gathers information about the intended system use, types of information collected by the system, and typical users of the system. The process then focuses on areas such as: data ownership, system roles, encryption, activity logging, configuration management, disaster recovery, and incident response. The data gathered is analyzed ensuring that the correct security measures are consistently applied before they are purchased. The PeopleSoft workflow created to streamline the process has been implemented and will be used along with historical data to provide 1st quarter and 2nd quarter metrics to the BOE through the BOE weekly updates. The team had also begun work on an information privacy website. This website will be a resource for staff, students, and parents. The site will define key terms such as FERPA (Family Educational Rights and Privacy Act) and COPPA (Children's Online Privacy Act), present awareness topics, and act as a resource for software that has been approved through the purchasing process. The website will be completed in mid-February.

Data Quality:

The increasing integration of data from "upstream" systems for both analysis and reporting (Dashboard, Colorado Department of Education Pipeline) is highlighting areas where organizational data is either inaccurate or inconsistently defined across the systems. A data quality analyst has been hired and is beginning work on implementing a Data Quality Scoreboard system for improving the quality of our Infinite Campus data. This scoreboard will be delivered via email to schools on a regular interval to help them identify these problem areas for correction within Campus.

Health Care Reform:

With the implementation of the national Affordable Care Act (ACA), Jeffco is implementing complicated requirements that will expand who is eligible for health care, require tracking of work hours on a regular basis to ensure that those eligible receive an offer of health coverage based on actual hours worked, and require detailed reports to be submitted to the federal government. The district will implement these provisions of ACA effective July 1, 2015. Changes were negotiated with the associations to implement a consistent definition of benefits eligibility across all employee groups. We expect full implementation to increase overall program costs. Early projected cost increases that have been included in out-year projections are over \$8 million in ongoing cost increases.

Special Education:

Costs associated with supporting students with intensive needs, beyond the district's services who are placed into facilities outside of the district (POODS), are currently tracking below the prior year. The Special Education department has worked to keep students in the district if possible. The Colorado Department of Education recalculates the pricing in February and March which can result in higher costs for the remainder of the fiscal year. The current year budget is \$4.9 million and will be closely monitored throughout the year.

2015/2016 Budget Development:

The budget office and district leadership, in partnership with school staff and communities, continue to implement 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 a new budgeting structure for 2015/2016. Each school budget will undergo a detailed review by the budget office and district leadership at the beginning of February to ensure fiscal viability and sustainability.

The 2015/2016 budget process includes several components of community engagement including Board of Education hosted community budget forums, an online community engagement survey and input from school-level and district-level accountability committees. This feedback and recommendations as along with internal staff recommendations will be presented to the Financial Oversight Committee and the district's Strategic Planning Advisory Council for consideration. Their comments will then be delivered to the Board of Education during budget development discussions. A third party programmatic review of departmental activities continues with final results expected in the spring.

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' and a long, sweeping underline.

Kathleen Askelson
Chief Financial Officer