

**Metropolitan Education District**  
**2005-06 Unaudited Actual Financial Report**  
**September 13, 2006**

## **Executive Summary**

### **Presentation of the Unaudited Actual Financial Report**

The District is presenting the year-end Unaudited Actual Financial Report in a format similar to the Interim Financial Reports in order to provide the Governing Board, district employees and public with a more relevant and user-friendly document. We have included this Executive Summary, "Unaudited Actuals at a Glance" and a *Comparative: Unaudited Actuals to Estimated*, with footnoted explanations of the differences. The following is a summary of the year-end activity for each fund.

### **Reserves for Cash Flow**

Unlike K-12 education, ROC/P and Adult Education programs do not receive state advance apportionment funds until the state budget is signed into law. In recent years, adoption of the state budget has been delayed for as much as 60 days. Consequently, the district had to rely on temporary reserves to cover vendor payments and employee payrolls. In 2004-05, the Governing Board designated these temporary reserves as permanent in order to provide sufficient cash for 60-days of vendor payments and employee payrolls. Two reserves are combined to provide an overall 10% reserve; a 4% General Reserve and 6% Reserve for Economic Uncertainty. Both the General Fund and Adult Education Fund ended the fiscal year with these reserves intact.

### **Reserve for PERS Recapture Liability**

In 1982-83, the Public Employees Retirement System (PERS) employer contribution rate was reduced from 13.02% to 12.045%. The state was in financial crisis and a state law was passed requiring the recapture of the savings from the PERS rate reduction. This was to have been a one-time reduction of districts' Revenue Limit apportionment. However, this one-time reduction has been a continuous part of the Revenue Limit calculation since 1982-83. The amount recaptured is the difference between the 13.02% and the employer contribution rate for that year. In years when there has been no employer rate, the recapture rate has been the full 13.02% of qualifying classified employee wages.

The law has been confusing as to whether the PERS recapture applies to ROCPs operating as Joint Powers Authorities (JPAs). In 2000, SB 1667 was enacted that intended to include JPAs in the PERS recapture calculations. However, there was an erroneous cross reference in the legislation that kept it from being implemented. In 2003-04, the Department of Finance (DOF) attempted to unilaterally impose the PERS recapture on JPAs, without correcting the Education Code error. The DOF attempt was defeated when education advocates threatened litigation. In 2004-05, legislation that would have corrected the erroneous reference, and provide a clear exemption for ROCP JPAs, was vetoed by the Governor, and the matter was referred to the California Department of Education (CDE) for interpretation. Currently, both the CDE and DOF believe that the PERS offset applies to ROCP JPAs. However, they have

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not imposed the recapture because of the incorrect Ed Code reference. During 2005-06, the California Association of Regional Occupational Centers and Programs (CAROCP) introduced AB 2107 to provide a clear exemption for ROCP JPAs. That bill died in the Assembly, and the matter remains up in the air.

The MetroED Governing Board has recognized the potential financial liability to the District. Consequently, the Board has directed that reserves be established in the fund balances of both the General and Adult Education funds sufficient to pay the PERS Reduction recapture retroactive to 2003-04.

**Fund 010: General Fund (CCOC/P)**

Fund 010 Purpose: Fund 010 is the General Fund for the Central County Occupational Center and Programs (CCOC/P).

Fund 010 Revenues: Final General Fund revenues exceeded the Estimated Actuals by \$147,428. Of this \$108,894 was due to year end lottery revenue pass-through from Campbell Union High School District that had not been budgeted. Another \$24,570 was from Job Corps tuition that exceeded estimates.

Fund 010 Expenditures: Final expenditures were \$253,391 less than estimated. The savings were in numerous categories, but primarily savings in salaries and benefits. See the *Comparative: Unaudited Actuals to Estimated* for details.

Fund 010 Other Financing Sources/Uses: Due to the unexpected additional income, and savings in expenditure accounts, the District was able to transfer an additional \$400,000 to the CCOC Capital Outlay fund to be used as match for CCOC facility modernization projects.

Fund 010 Fund Balance: For the year, the total increase in fund balance was \$80,262. The Superintendent is recommending the following ending fund balance reserves and designations as follows:

Reserved: Revolving Fund and Prepaid	\$ 48,948
General Reserve-Cash Flow (4%)	\$ 560,527
Legally Restricted Balances (Lottery)	\$ 19,543
Designated for Economic Uncertainty (6%)	\$ 990,791
Designated: Campus security projects	\$ 130,000
Designated: Completion of IT projects	\$ 43,195
Designated: PERS Recapture Liability	<u>\$ 225,768</u>
Total Designations and Reserves	\$2,018,772
Undesignated Fund Balance	<u>\$ 6,138</u>
Total Ending Fund Balance	<u>\$2,024,910</u>

The 4% General Reserve and 6% Designation for Economic Uncertainty are in compliance with Budget Guidelines adopted by the Governing Board.

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State Form ROP: The state requires that the District prepare state form ROP to calculate if the ROCP program's allowable reserves and ending balances are in compliance with Education Code 52321. Form ROP is included under "State Forms" in the Unaudited Actual package. The district ROCP program is in compliance with Education Code 52321.

**Fund 110: Adult Education**

Fund 110 Purpose: The Adult Education Fund is used to account separately for federal, state and local revenues for Adult Education programs. MetroED administers the Adult Education programs for San Jose Unified School District and Campbell Union High School District.

Fund 110 Revenues: Final 2005-06 revenues exceeded the Estimated Actuals by \$35,325. The most significant difference was \$43,933 of additional revenue from prior year excess Calworks ADA. Adult Education was short in meeting its state ADA cap by 122 ADA. This translated into a loss of potential revenue of \$291,485.

Fund 110 Expenditures: Overall year end expenditures exceeded Estimated Actuals by a net \$14,462. Salaries and benefits expenditures exceed budget by \$134,868. This was off-set almost entirely by savings in supplies and other operating expense accounts.

Fund 110 Other Financing Sources/Uses: There was no change to Other Financing Sources/Uses from the Estimated Actuals. For the year, \$300,000 was transferred to the Capital Outlay Fund for the purpose of accumulating funds for the replacement of facilities in both the Campbell and San Jose Adult programs.

Fund 110 Fund Balance: For the year, the Fund balance was increased \$145,054. The Superintendent is recommending the Adult Education ending fund balance reserves and designations as follows:

General Reserve for Cash Flow (4%)	\$ 413,199
Designated for Economic Uncertainty (6%)	\$ 619,799
Designated: Completion of IT Projects	\$ 22,175
Designated: PERS Recapture Liability	<u>\$ 199,626</u>
Total Designations and Reserves	\$1,254,799
Undesignated Fund Balance	\$ 67,559
Total Ending Fund Balance	<u>\$1,322,358</u>

The 4% General Reserve and 6% Designation for Economic Uncertainty are in compliance with Budget Guidelines adopted by the Governing Board.

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**Fund 140: Deferred Maintenance**

Fund 140 Purpose: The Deferred Maintenance Fund is used to account separately for state apportionments and the district's contribution for deferred maintenance purposes. Primary revenues for this fund are the state Deferred Maintenance apportionment, interest earnings and district interfund transfers for the district's match. Expenditures in this fund are intended for major repairs or replacements under the 5-year Deferred Maintenance plan approved by the Governing Board and Office of Public School Construction (OPSC). Expenditures may only be made for CCOC facilities.

Fund 140 Revenues: Fund 140 Unaudited Actual revenues reflect a decrease of \$111,571 from Estimated Actuals. This was partially due to an anticipated State Allocation Board increase of \$119,000 to the transformer replacement project that was not approved during the 2005-06 fiscal year. The increase was finally approved on August 23, 2006, and will be included in the 2006-07 budget.

Fund 140 Expenditures: Final expenditures exceed Estimated by \$191,080. This was due mostly to \$162,995 in progress payments for the transformer replacement project that were made in 2005-06, instead of 2006-07. Final expenditures for the year were in the following categories:

<u>Expenditures</u>	<u>Amount</u>
Electrical	\$ 191,739
HVAC	\$ 67,558
Painting	\$ 143,235
Paving	\$ 3,155
Floor Covering	\$ 50,919
Lighting	\$ 15,778
Wall System	<u>\$ 492,320</u>

Fund 140 Other Financing Sources/Uses: There was no change from the Estimated Actuals. Total transfers in for the year were \$164,203 from the General Fund, which was the District's match for state deferred maintenance funding.

Fund 140 Fund Balance: The Deferred Maintenance fund ended the year with a balance of \$660,533. Of that, \$407,827 is designated for the transformer replacement project.

**Fund 210: Building Fund-Asset Management**

Fund 210 Purpose: This is known as the CCOC Asset Management Fund. This fund exists primarily to account separately for proceeds from the rentals and leases of real property specifically authorized for deposit into the fund by the Governing Board. Revenues include lease payments from the Capital Auto Mall LLP and interest earnings. Expenditures are allowed only for new programs,

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upgrading of existing programs and necessary facility upgrades as approved by the Governing Board.

Fund 210 Revenues: Actual revenues for 2005-06 were slightly lower from the Estimated Actuals by \$8,315. This was due to an internal adjustment of a reimbursement of legal fees that was abated against an expense instead of being recorded as revenue.

Fund 210 Expenditures, Other Financing Sources/Uses and Fund Balance: Final expenditures exceeded the Estimated Actuals by a slight \$3,923. There were no changes to the Other Financing Sources/Uses category. For the year, the overall fund balance decreased by \$234,296 as the District continued to upgrade equipment and facilities for new and existing classes. For the year, total expenditures were as follows, by program and class:

<u>Expenditures:</u>	<u>Amount</u>
Set up new class – Video Production	\$ 134,531
Set up new class – Forensics Investigation	\$ 106,695
Set up new class – Computer Tech Careers	\$ 19,215
Building 700 renovation project	\$ 117,743
Upgrade existing classes – Graphic Design	\$ 9,621
Upgrade existing classes – Welding (equip)	\$ 97,193
Health & safety expenditures	\$ 36,078
3% District management fee transfer to GF	<u>\$ 10,494</u>
Total Expenditures	<u>\$ 531,570</u>

Board policy requires a minimum reserve of \$250,000 in the Asset Management Fund.

**Fund 400: Special Reserve Fund for Capital Outlay Projects**

Fund 400 Purpose: This Capital Outlay Fund exists to provide for accumulation of monies for capital outlay purposes. The only sources of revenue for this fund are interest earnings and transfers from the ROC/P and Adult Education Funds. Monies in this fund are kept separate in their own Resource codes. Amounts are appropriated for expenditures as projects are planned and executed.

Fund 400 Fund Description: Fund 400 is divided into three separate “sub-funds” (Resource codes) that allow the district to account separately for funds allocated. They are CCOC, San Jose Adult Education program and Campbell Adult Education program.

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Fund 400 Revenues, Transfers and Expenditures: 2005-06 Capital Outlay Fund  
 400 activity was as follows:

<u>Description</u>	<u>CCOC</u>	<u>San Jose</u>	<u>Campbell</u>
Beginning Fund Balance	\$2,819,706	\$1,158,183	\$ 591,740
Plus: Interest Revenue	\$ 135,229	\$ 36,380	\$ 19,545
Plus: Transfer In (for Debt Svc)	\$ 170,920	\$ 0	\$ 0
Plus: Transfer In (QZAB Proceeds)	\$1,000,000	\$ 0	\$ 0
Plus: Transfer In (for Capital Outlay)	\$1,087,212	\$ 168,520	\$ 131,480
Total Sources Available	<u>\$5,213,067</u>	<u>\$1,363,083</u>	<u>\$ 742,766</u>
Less: Expenses	\$ 439,388	\$ 0	\$ 0
Less: Other Uses (Debt Service)	\$ 170,920	\$ 0	\$ 0
Total Uses of Funds	<u>\$ 610,308</u>	<u>\$ 0</u>	<u>\$ 0</u>
Ending Fund Balances	<u>\$4,602,759</u>	<u>\$1,363,083</u>	<u>\$ 742,766</u>

There is an urgent need to accumulate funds in the Adult Education Resources accounts to replace old facilities at the San Jose Hillsdale and Campbell Del Mar Adult Ed campuses. There is also a need to accumulate funds for modernization of the nearly 40-year old facilities on the CCOC campus.

Components of Fund Balance: In the CCOC Resource balance, \$697,865 is held by the District's trustee, Bank of New York, to repay the QZAB bond at maturity. The funds are invested in a Guaranteed Investment Contract (GIC) such that principal and earnings will total \$1 million at bond maturity (15 years). These funds are not available for use by the District. In addition, \$1,162,440 is designated for completion of the building 700 project. Components of the Capital Outlay fund balances are as follows:

<u>Components of Fund Balances</u>	<u>CCOC</u>	<u>San Jose</u>	<u>Campbell</u>
Cash with Fiscal Agent (QZAB)	\$ 697,865	\$ 0	\$ 0
Designated for Bldg 700 Project	\$1,162,440	\$ 0	\$ 0
Designated for Capital Projects	<u>\$2,742,454</u>	<u>\$1,363,083</u>	<u>\$ 742,766</u>
Total Fund Balances	<u>\$4,602,759</u>	<u>\$1,363,083</u>	<u>\$ 742,766</u>