

**Metropolitan Education District**  
**2007-08 Unaudited Actual Financial Report**  
**September 10, 2008**

***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 in 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 funding at the beginning of the fiscal year. Funds are apportioned ONLY after the state budget is signed into law, resulting in the district having to rely on temporary reserves to cover vendor payments and employee payrolls. During 2004-05, the Governing Board established policy to set up an overall 10% reserve, composed of a 4% General Reserve and a 6% Reserve for Economic Uncertainty, in order to provide sufficient cash for vendor payments and employee wages for an approximate 60-day period. In the current 2008-09 fiscal year, adoption of the state budget was delayed for 60+ days. Because of these reserves, including funds transferred from the Capital Outlay Fund, the District has been able to address its cash flow needs.

**Reserves 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 contribution, 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 ROC/PS operating as Joint Powers Authorities (JPAs). In 2000, SB 1667 was enacted that intended to include JPAs in the PERS reduction 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. 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 ROC/PS 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 ROC/PS JPAs. However, they have not imposed the recapture because of the incorrect Ed Code reference. The matter continues to be unresolved.

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The MetroED Governing Board has recognized the potential financial liability to the District, and directed that reserves be established for both the General and Adult Education funds sufficient to pay the three years of the PERS Reduction recapture. The General Fund PERS reserve is held in the District Fund 170 "Special Reserve." The Adult Education Fund reserve is designated as part of the fund balance for the Adult Education Fund 110.

**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), which includes the Satellite ROP programs in the high schools of the six participating districts.

Fund 010 Revenues: Final General Fund revenue exceeded the Estimated Actuals by \$136,389. Primarily it includes the following items:

- \$131,189 current year funding for CalWorks ADA, which was not expected in the Estimated Actuals.
- \$33,882 additional for prior year excess local property tax and additional approved CalWORKS funding received in the state P2 certification.

Fund 010 Expenditures: Final expenditures were \$439,717 less than estimated. The savings were in numerous categories. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes.

Fund 010 Other Financing Sources/Uses: Transfers out to the Capital Outlay Fund 400 increased by \$367,346, due to the unexpected additional revenues and savings from expenditures. These transfers will be used as match for Proposition 1D state grants for CCOC modernization and program reconfiguration projects.

Fund 010 Fund Balance: For the year, the net increase in fund balance was \$445,379. See following chart for detail of the reserves and designations:

<b>General Fund – Components of Fund Balance</b>	<b>2007-08</b>
Reserved (Revolving Cash, Prepaid Exp.)	\$ 51,667
General Reserve for Cash Flow (4%)	\$ 684,978
Legally Restricted Balances	\$ 5,599
Designated: Economic Uncertainties (6%)	\$ 1,027,467
Designated: Contingency for State Deficits	\$ 1,000,000
Designated: WASC Self-Study, Staffl Development	\$ 60,000
Designated: On-Going Salary Commitment	\$ 160,000
<b>Total Reserves</b>	<b>\$ 2,989,711</b>
Undesignated Fund Balance	\$ 78,704
<b>Total Fund Balance</b>	<b>\$ 3,068,415</b>

The Legally Restricted Balances is composed of unspent restricted funds for a 2006-07 one-time CTE equipment grant and restricted one-time site block grant that is carried over to 2008-09. The Contingency for State Deficit is in response to the Governor's May

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Revise budget proposal that cut proposed 2008-09 ROCP revenues by 6.5% from 2007-08 levels. That proposed revenue cut exceeds \$1 million. \$60,000 is designated to provide funds to cover the WASC self-study that is required in 2008-09, and related staff development. The Designation for on-going salary commitment is to set-aside funds for the 2% employee salary increase given in 2007-08, and in recognition of the 6.5% proposed cut to ROCP revenues in 2008-09.

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

**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 under a Master Business Relationship Agreement.

Fund 110 Revenues: Final Adult Education Fund revenue exceeded the Estimated Actuals by \$115,220. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes.

Fund 110 Expenditures: Final expenditures were \$301,740 less than estimated. The savings were in numerous categories, but primarily due to savings in Services and Other Operations account. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes

Fund 110 Other Financing Sources/Uses: Transfers out to the Capital Outlay Fund 400 increased by \$432,161, due to the unexpected additional revenues and savings from expenditures. It will help the District for future MAEP facility modernization projects.

Fund 110 Fund Balance: For the year, the net increase in fund balance was \$1,191,643. See following chart for detail reserves and designations

<b>Adult Education Fund – Components of Fund Balance</b>		<b>2007-08</b>
General Reserve	(4%)	\$ 452,137
Legally Restricted Balances		\$ 15,158
Designated: Economic Uncertainties	(6%)	\$ 678,204
Designated: Contingency for State Deficits		\$ 800,000
Designated: Capital Facilities		\$ 170,000
Designated: Computer Upgrades		\$ 70,000
Designated: WASC Self-Study, Staff Development		\$ 100,000
Designated: PERS Recapture liability reserve		\$ 302,000
Designated: On-Going Salary Commitment		\$ 170,000
<b>Total Reserves</b>		<b>\$ 2,757,499</b>
Undesignated Fund Balance		\$ 51,231
<b>Total Fund Balance</b>		<b>\$ 2,808,730</b>

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The largest portion of the fund balance increase was the *Contingency for State Deficits*, created during the year when numerous budget expenditures were “frozen” and the savings set-aside to cover projected state budget reductions in 2008-09. The Legally Restricted Balances is composed of a restricted one-time site block grant and CalPro professional development grant that is carried over to 2008-09. The Designation for PERS Recapture Liability is in accordance with Board policy (see explanation on page #1). Designation for WASC Self-Study to provide funds to cover the self-study that is scheduled in 2008-09, and related staff development.

**Fund 140: Deferred Maintenance**

Fund 140 Purpose: The Deferred Maintenance Fund is used to account separately for state apportionments and the district’s match 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 at the Central County Occupational Center (CCOC) under the 5-year Deferred Maintenance plan approved by the Office of Public School Construction (OPSC).

Fund 140 Revenues: Final Deferred Maintenance Fund revenue was less than the Estimated Actuals by \$3,232 due to earned interest less than the Estimated.

Fund 140 Expenditures: Final expenditures were less than the Estimated by \$3,188. Final expenditures for the year were in the following categories:

<b>Deferred Maintenance Fund - Expenditures</b>	<b>2007-08</b>
Painting Projects	\$ 94,178
Paving Projects	\$ 233,288
Electrical/HVAC Projects	\$ 67,818
Plumbing Projects	\$ 3,261
Roofing Projects	\$ 1,349
<b>Total Expenditures</b>	<b>\$ 399,894</b>

Fund 140 Other Financing Sources/Uses: There are no changes in this category

Fund 140 Fund Balance: For the year, the ending fund balance was \$415,486. All the balances were designated for the projects identified in the 5-year Deferred Maintenance plan.

**Fund 170: Special Reserve Fund for Other than Capital Outlay Projects**

Fund 170 Purpose: The Special Reserve Fund for Other Than Capital Outlay Projects is used to account for the accumulation of General Fund money for purposes other than capital outlay. This fund was authorized by the Governing Board in October 2006 to reserve mandated cost reimbursements pending audit by the State Controllers’ Office (SCO). Also included under this fund was the transfer from the General Fund for the PERS recapture liability.

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Fund 170 Revenues: Final revenue is \$5,168 less than the Estimated for the interest revenue.

Fund 170 Expenditures: According to Education Code 42842, any money to be expended from this fund must first be transferred into the General fund of the District. Currently there were no expenditures recorded in this fund.

Fund 170 Fund Balance: For the year, the ending fund balance was \$490,016. Within that, \$396,070 was designated for PERS Recapture Liability, and \$93,946 for the Mandated Costs reimbursement.

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

Fund 210 Purpose: This is otherwise 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, upgrading of existing programs and necessary facility upgrades as approved by the Governing Board.

Fund 210 Revenues: Final revenue was less than the Estimated by \$2,959 in the interest revenue category.

Fund 210 Expenditures: Final expenditures were \$25,274 less than the Estimated. The largest expenditure category was for the new Fire Science/Pre-EMT programs, at \$131,227. For the year, total expenditures were as follows, by program and class:

<b>Asset Management Fund - Expenditures</b>	<b>2007-08</b>
Baking and Catering	\$ 5,762
Culinary Arts	\$ 10,017
Veterinary Assistant	\$ 12,106
Bldg. 700 Renovations	\$ 3,114
Fire Science	\$ 94,589
Pre-EMT	\$ 36,638
3% District Management Fee	\$ 10,627
<b>Total Expenditures</b>	<b>\$ 172,853</b>

Fund 210 Fund Balance: For the year, the ending fund balance was \$664,139. 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.

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Fund 400 Revenues, Expenditures and Other Financing Sources/Uses: The following chart summarizes the Capital Outlay Fund activity for 2007-08. The \$200,000 transfer to Campbell Union High School District was partial payment for replacement of the old administration building at the Adult Education Center on the Del Mar High School Campus. Another \$575,000 will be transferred to Campbell UHSD when MetroED receives its Advance Apportionment from the state, which is not expected until sometime in early October 2008.

Capital Outlay Fund - Revenues & Expenditures	CCOC	Adult Ed San Jose	Adult Ed Campbell
<b>Beginning Fund Balance</b>	<b>\$ 5,364,484</b>	<b>\$ 1,402,007</b>	<b>\$ 767,381</b>
<b>Sources of Funds:</b>			
Interest Earnings	\$ 470,468	\$ 67,821	\$ 29,946
Transfers In	\$ 2,500,000	\$ 290,672	\$ 141,489
<b>Total Sources Available</b>	<b>\$ 2,970,468</b>	<b>\$ 358,493</b>	<b>\$ 171,435</b>
<b>Uses of Funds:</b>			
Project Expenditures	\$ 143,267	\$ 22,924	\$ 2,678
Transfer to Campbell UHSD	\$ 0	\$ 0	\$ 200,000
Debt Service-QZAB Bond	\$ 19,500	\$ 0	\$ 0
<b>Total Uses of Funds</b>	<b>\$ 162,767</b>	<b>\$ 22,924</b>	<b>\$ 202,678</b>
<b>Increase (Decrease) to Fund Bal.</b>	<b>\$ 2,807,701</b>	<b>\$ 335,569</b>	<b>-\$ 31,243</b>
<b>Ending Fund Balances</b>	<b>\$ 8,172,185</b>	<b>\$ 1,737,576</b>	<b>\$ 736,138</b>

Fund 400 Fund Balances: Designations for the fund balances in the Capital Outlay Fund are shown below. The *Cash-Fiscal Agent, QZAB Repayment* is on deposit with the QZAB bond trustee, The Bank of New York Trust Company, and invested in a Guaranteed Investment Contract (GIC). The principle and investment earnings cannot be accessed for any purpose other than repayment of the QZAB. Designations are as follows:

Capital Outlay Fund - Components of Fund Balances	CCOC	Adult Ed San Jose	Adult Ed Campbell
Cash-Fiscal Agent, QZAB Repayment	\$ 742,767	\$ 0	\$ 0
Designated: Prop 1D Match	\$ 7,429,417	\$ 0	\$ 0
Designated: MC Adult Village	\$ 0	\$ 1,737,576	\$ 0
Designated: DX Facilities Constr.	\$ 0	\$ 0	\$ 575,000
Designated: Equip/Facilities Upgrades	\$ 0	\$ 0	\$ 161,138
<b>Ending Fund Balance</b>	<b>\$ 8,172,185</b>	<b>\$ 1,737,576</b>	<b>\$ 736,138</b>