

**Metropolitan Education District**  
**2008-09 Unaudited Actual Financial Report**  
**September 9, 2009**

***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.

**Categorical Program Flexibility**

The 2009-10 budget adopted on February 20, 2009 was crafted to eliminate an estimated \$42 billion state deficit. Included in the budget was a 2008-09 mid-year funding reduction of 15.38% to most education categorical programs, including ROC/P and Adult Education. That reduction increased to nearly 20% for 2009-10 (from the 2007-08 base year).

In order to provide school districts with maximum budget flexibility, the legislature also declared that for five years the funding for 42 categorical programs, including ROC/P and Adult Education, may be expended "for any educational purpose."

MetroED operates under the auspices of a Joint Powers Agreement that requires its six participating districts to pass through to the JPA all ROC/P and Adult Education funds received from the state. While this "pass-through" includes the flexibility associated with this funding, that same Joint Powers Agreement requires MetroED to continue to provide ROC/P and Adult Education services to these districts and communities.

One impact of flexibility is that funding for ROC/P, Adult Education and Deferred Maintenance have been re-categorized by the state as General Fund, Unrestricted. This change has impacted the reporting format for the 2008-09 unaudited actuals, and will require additional changes in the future in how we report our unaudited actuals, interim reports and budgets to the state.

**Reserves for Cash Flow**

Until 2009-10, ROC/P and Adult Education programs have not received state advance apportionment funding at the beginning of the fiscal year. Funds were 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 a 60 day period. This reserve policy has become even more important for district cash flows during the 2008-09 and 2009-10 school years as the state, because of its own cash flow problems, deferred funding apportionments to school districts.

Since Adult Education, ROC/P and Deferred Maintenance have been designated as general fund programs, MetroED should now receive its funding on the same schedule as K-12 districts. This also means that MetroED is subject to the same deferrals as K-12

**Metropolitan Education District**  
**2008-09 Unaudited Actual Financial Report**  
**September 9, 2009**

districts. The cumulative impact of the deferred apportionments on MetroED cash flows (from normal funding) ranges from \$993,186 to \$4,965,930

The current state budget crisis has reinforced the wisdom of the Board's 10% reserve policy. Because of these reserves, including funds transferred from the Capital Outlay Fund, the District has been able to address its cash flow needs without having to borrow from outside agencies.

**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 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 not imposed the recapture because of the incorrect Ed Code reference. The matter continues unresolved.

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. During 2007-08 the General Fund PERS reserve was transferred to District Fund 170 "Special Reserve for other than Capital Outlay Projects." The Adult Education Fund reserve of \$302,000 is transferred to fund 170 as part of the year end close of the 2008-09 books.

**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 \$379,168. The largest components of the differential are:

**Metropolitan Education District**  
**2008-09 Unaudited Actual Financial Report**  
**September 9, 2009**

- \$293,435 reduction in apportionments for apprenticeship programs due to the state budget reductions.
- \$528,640 increase in local revenue for transfer of state fiscal stabilization funds from Milpitas for ROCP adult ADA.

Fund 010 Expenditures: Final expenditures were \$1,113,515 less than estimated. The savings were in numerous categories, due primarily to saving from the district's mid-year freezing of various budget accounts, and not filling vacant positions. 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 \$500,000 to be used as match for Proposition 1D state grants for CCOC program reconfiguration & building modernization projects.

Fund 010 Fund Balance: For the year, the net increase in fund balance was \$44,925. See following chart for detail of the reserves and designations:

<b>General Fund 010:</b>		<b>2008-09</b>
<b>Components of Fund Balance</b>		
Reserved - Revolving Cash		20,000
General Reserve for Cash Flow	(4%)	632,982
Legally Restricted Balances		30,371
Designated: Economic Uncertainties	(6%)	949,472
Designated: Contingency for State Deficits		666,569
Designated: SFSF Receivable Contingency		533,974
Designated: Cosmetology Contract Completions		160,000
Designated: Professional Dev. Block Grant/Other		67,277
<b>Total Designated &amp; Reserves</b>		<b>3,060,645</b>
Undesignated Fund Balance		52,695
<b>Total Fund Balance</b>		<b>3,113,340</b>

The Economic Uncertainties and General Reserves are continued at 6% and 4% respectively. \$666,569 is set as contingency for state deficits in anticipation of additional cuts to education budgets for the 2010-11 school year. The \$533,974 SFSF receivable contingency reserved pending a budget review as to where these funds may be spent. This will occur at the First Interim Report on December. The \$160,000 reserve for Cosmetology Contract Completions is to cover the completion of high school student contracts at the cosmetology schools. Once completed, there are no further financial commitments for cosmetology.

**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.

**Metropolitan Education District**  
**2008-09 Unaudited Actual Financial Report**  
**September 9, 2009**

Fund 110 Revenues: Final Adult Education Fund revenue was less than estimated by \$920,494 as the district accounted for reduced revenue limit funding from the state budget cuts. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes.

Fund 110 Expenditures: Final expenditures were \$704,886 less than estimated. The savings were in numerous categories, but primarily due to savings from budget account freezes in response to the state budget crisis. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes

Fund 110 Other Financing Sources/Uses: Transfers out increased \$75,685 due primarily to an additional year end increase of \$100,000 to the Capital Outlay Fund 400 with the expectation that there will be additional costs associated with construction of the new MC Village and/or future capital outlay expenses. Transfers In increased \$24,315 as the district completed final calculations on lottery transfers due from Campbell UHSD for the year.

Fund 110 Fund Balance: For the year, there was an expected decrease in fund balance of \$1,371,236 due a 15.38% midyear cut to Adult Education revenues. See the following chart for detail reserves and designations

<b>Adult Education Fund 110:</b>		<b>2008-09</b>
<b>Components of Fund Balance</b>		
General Reserve	(4%)	457,945
Designated: Economic Uncertainties	(6%)	686,918
Designated: Contingency for State Deficits		292,631
<b>Total Designated &amp; Reserves</b>		<b>2,437,494</b>
Undesignated Fund Balance		0
<b>Total Fund Balance</b>		<b>2,437,494</b>

The unallocated fund balance of \$292,631 was designated as a reserve for state deficits. Allocation of these funds will be evaluated for board consideration with the First Interim Report.

**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 \$1,449 due to earned interest less than the Estimated.

Fund 140 Expenditures: Final expenditures were less than the Estimated by \$1,978.

**Metropolitan Education District**  
**2008-09 Unaudited Actual Financial Report**  
**September 9, 2009**

Fund 140 Other Financing Sources/Uses: \$168,385 was transferred out from Deferred Maintenance to the Capital Outlay Fund 400 for Proposition 1D match. This was a payment by the state of 20% of the Deferred Maintenance Extreme Hardship sewer replacement project grant. The sewer project was funded by a transfer of excess property taxes from the general fund, so these state payments may be used for any educational purpose, and should help the district meet its Prop 1D match requirement.

Fund 140 Fund Balance: For the year, the ending fund balance was \$1,235,768. All the balances were designated for the projects identified in the 5-year Deferred Maintenance plan, including the sewer replacement project.

**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.

Fund 170 Revenues: Final revenue is \$12,550 represents interest earned on the fund balances.

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 Other Sources/Uses: \$452,000 was transferred into this fund during the year, representing \$302,000 PERS recapture reserve transferred from the Adult Education Fund 110, \$50,000 legal reserve transferred from Adult Education Fund 110 and \$100,000 legal reserve transferred from the General Fund 010..

Fund 170 Fund Balance: For the year, the ending fund balance was \$954,566. The following chart details the various designations with the fund balance.

<b>Special Reserve Fund 170: Other than Capital Outlay Compnents of Fund Balance</b>	<b>2008-09</b>
Reserve for Mandated Cost Audits	93,946
Reserve for PERS Recapture Liability-General Fund	408,620
Reserve for PERS Recapture Liability-Adult Education	302,000
Reserve for Potential Legal Costs-General Fund	100,000
Reserve for Potential Legal Costs-Adult Education	50,000
<b>Total Fund Balance</b>	<b>954,566</b>

**Metropolitan Education District**  
**2008-09 Unaudited Actual Financial Report**  
**September 9, 2009**

**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: Total revenue for the year of \$299,154 included lease revenue for of \$277,607 and interest revenue was \$21,547.

Fund 210 Expenditures: Expenditures were limited to \$8,799, as most of the funds in this fund, other than the required minimum reserve, were designated for the district's match for Proposition 1D equipment grants.

Fund 210 Interfund Transfers Out: The annual 3% management fee transfer to the General Fund was \$10,820. There were no other transfers in or out.

Fund 210 Fund Balance: For the year, the ending fund balance was \$943,674. Board policy requires a minimum reserve of \$250,000. \$642,055 is designated for the District's 50% match for Proposition 1D equipment grants, which comprises the total match required by the state for the equipment grants.

<b>Building Fund 210 (Asset Management): Components of Fund Balance</b>	<b>2008-09</b>
Prop 1D – Bldg 200 Equipment (Res: 9508)	67,723
Prop 1D – Bldg 300 Equipment (Res: 9509)	29,168
Prop 1D – Bldg 800 Equipment (Res: 9510)	53,677
Prop 1D – Bldg 100 Equipment (Res: 9511)	102,620
Prop 1D – Bldg 500/600 Equipment (Res: 9515)	388,867
Minimum Fund Reserve-Board Policy	250,000
Designated for future CCOC Program Upgrades	51,619
<b>Total Fund Balance</b>	<b>943,674</b>

**Fund 350: County School Facilities Funds**

Fund 350 Purpose: This fund was established in 2008-09 to account separately for apportionments from the state and expenditures related to construction and modernization projects that have been approved by the State under Proposition 1D. State funds will be released when District submits the funding request after Division of State Architect's approval.

Fund 350 Revenues: During 2008-09, \$269,203 was transferred in to this fund from the General Fund, which acted as fiscal agent pending approval by the County Office of Education to establish this fund. The dollars are an advance from the State Allocation Board of Proposition 1D grants.

**Metropolitan Education District**  
**2008-09 Unaudited Actual Financial Report**  
**September 9, 2009**

Fund 350 Expenditures: There were only minor expenditures of \$8,799 related to Proposition 1D projects during the year.

**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 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.

<b>Capital Outlay Fund 400: Revenues &amp; Expenditures</b>	<b>CCOC</b>	<b>Adult Ed San Jose</b>	<b>Adult Ed Campbell</b>
<b>Beginning Fund Balance</b>	<b>8,172,185</b>	<b>1,737,575</b>	<b>736,139</b>
<b>Sources of Funds:</b>			
Interest Earnings	138,190	40,376	3,981
Transfers In	1,168,385	200,000	0
<b>Total Sources of Funds</b>	<b>1,306,575</b>	<b>240,376</b>	<b>3,981</b>
<b>Uses of Funds:</b>			
Project Expenditures	665,140	379,083	584,401
Transfer to Fund 350	269,203	0	0
Debt Service-QZAB Bond	19,500	0	0
<b>Total Uses of Funds</b>	<b>953,843</b>	<b>379,083</b>	<b>584,401</b>
<b>Increase (Decrease) to Fund Bal.</b>	<b>352,732</b>	<b>(138,707)</b>	<b>(580,420)</b>
<b>Ending Fund Balances</b>	<b>8,524,917</b>	<b>1,598,869</b>	<b>155,719</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:

**Metropolitan Education District**  
**2008-09 Unaudited Actual Financial Report**  
**September 9, 2009**

<b>Capital Outlay Fund 400: Components of Fund Balances</b>	<b>CCOC</b>	<b>Adult Ed San Jose</b>	<b>Adult Ed Campbell</b>
Cash-Fiscal Agent (QZAB Repayment)	730,024		
Prop 1D – Bldg 300 (Res: 9501)	1,332,367		
Prop 1D – Bldg 800 (Res: 9502)	813,489		
Prop 1D – Bldg 200 (Res: 9503)	235,971		
Prop 1D – Bldg 100 (Res: 9504)	1,275,961		
Prop 1D – Bldg 100 (Res: 9505)	230,422		
Prop 1D – Bldg 200 (Res: 9506)	1,181,601		
Prop 1D – Bldg 600 (Res: 9507)	1,300,178		
Prop 1D – Bldg 700 (Res: 9512)	295,377		
Prop 1D – Bldg 300 (Res: 9513)	653,615		
Prop 1D – Bldg 100 (Res: 9514)	475,912		
Designated: MC Adult Village		1,598,869	
Designated: Capital/Deferred Maint.			155,719
<b>Ending Fund Balance</b>	<b>8,524,917</b>	<b>1,598,869</b>	<b>155,719</b>

The district has met all construction project match requirements except for Resource 9512. An additional \$618,874 is needed for this project to complete the district's match. Our goal is to generate these funds from interest earnings in this fund and transfers of the Deferred Maintenance Extreme Hardship sewer replacement payments over the next 3 years. The reserves for Adult Ed-San Jose are primarily for the MC Village construction project. The reserves for Adult Ed-Campbell are for any capital outlay needs at any of the Campbell sites, or maintenance needs that may come up at the Campbell Blackford center where MetroED owns the buildings.