Metropolitan Education District

First Interim Financial Report

December 12, 2012

Executive Summary

The Metropolitan Education District

The Metropolitan Education District (MetroED) is a Joint Powers Authority (JPA) created under Government Code Sections 6500 in 1983 by six school districts in Santa Clara County. Its purpose is to provide and administer a regional occupational center and programs (ROCP) and adult education programs. The six districts are Campbell Union High School District, East Side Union High School District, Los Gatos-Saratoga Joint Union High School District, Milpitas Unified School District, San Jose Unified School District and Santa Clara Unified School District. Each of the six districts designates one of their elected board members to sit on the MetroED Governing Board.

Purpose of the First Interim Report

The California Education Code 42130 requires the District to file two interim financial reports with the County Superintendent of Schools and the State Department of Education. The First Interim Report covers the financial and budgetary status of the District for the period ending October 31. The Governing Board of the District must certify whether the District is able to meet its financial obligations for the remainder of the fiscal year and for the subsequent two fiscal years. The certification is classified as positive, qualified, or negative. A positive certification means the District will be able to meet its financial obligations for the current and two subsequent years; Qualified certification means the District may not meet its financial obligations for the current fiscal year or two subsequent fiscal years; Negative certification means the District will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal years.

Interim Reports are “snapshots” of the condition of the agency at a point in time. Multi-year projections are highly dependent upon projected state funding, which is correspondingly dependent upon the health of the state economy and tax revenue collections. Consequently, Interim Report projections are only as reliable as the projections provided us by the state, and local expenditure decisions, which are constantly changing. Because of this, the District’s financial condition and current year budget is reviewed on an on-going basis by the business and fiscal staff, with changes provided to the Governing Board for monthly approval.

State Budget Outlook – Summary

In the November General Election, voters passed Governor Jerry Brown’s ballot initiative (Proposition 30) to increase taxes to generate more funds for schools and public safety. The Governor’s initiative is designed to raise the statewide sales tax a half-cent to 7.75% and impose higher personal income taxes on incomes of $250,000 or more annually for seven years.

The true goal of Proposition 30 is to address the state’s estimated $12.8 billion deficit problem by raising approximately $7 billion per year for five years. These funds would be held in the newly formed “Education Protection Account.” 11% of these funds would be set aside for community college funding and 89% would be for K-12 education. Distribution would be based on the Average Daily Attendance (ADA).

On the positive side, Proposition 30 allows K-12 and community colleges to plan on flat rate funding rather than further reductions and provides some relief in apportionment deferrals in upcoming years.

<u>A Multi-year Approach is Needed</u>:
During the last three budget years, California has approached insolvency and, in some cases, has been unable to meet its obligations in a timely manner. The legislature and Governor must develop a sustainable framework for California's finances if it is to avoid these problems and restore public confidence in state government.

As we have previously reported, if the Governor's Weighted Student Funding Formula (WSF) were to be implemented as it was originally proposed, the funding for ROCPs and Adult Education would have been absorbed and would no longer exist. The District is fortunate that the state legislature chose not to consider the WSF during the 2012 legislative session. We expect the Governor to revisit his WSF proposal as part of his January budget proposal (for 2013-14).

In the meantime, the current 2012-13 funding, and the multiyear projections are based on the fixed grant method.

The Funding Model for ROCP and Adult Education

Since the Weighted Pupil Funding Formula will not be implemented at this time, the First Interim Report indicates that for 2012-13 and the next three years, state funding for Regional Occupational Centers/Programs (ROCPs) and Adult Education will continue to be based on a fixed grant that is about 20% less than 2007-08 funding levels. This means that funds will be received regardless of whether or not average daily attendance is generated. The solution for the 20% cut in revenues has been a corresponding cut in on-going expenses and careful use of district reserves.

In addition, Adult Education funding was further reduced by $3.5 million per year from 2011-12 through 2014-15 when the San Jose Unified School District "flexed" 2/3 of the state apportionments for Adult Education to its General Fund. This has resulted in fewer classes being offered, which has the consequence of reducing federal funding from the Adult Ed Workforce Investment Act (WIA) grant. While the WIA grant exceeded $1 million in 2011-12, it has been reduced to $566,596 for 2012-13 and $283,298 for 2013-14 and beyond.

Apportionment Deferrals& Reserves for Cash Flow

The State of California has a serious problem with its cash flow. To help solve the problem, apportionments for school districts are being "deferred." Apportionments deferrals now extend across budget years. MetroED has taken steps to address the deferral issue by increasing the district reserve level from ten (10) percent to fifteen (15) percent at its November, 2010 meeting.

While Proposition 30 does protect public school funding it does not resolve the education funding deficit, and provides minimal help with cash flow issues. School Services of California provides the following explanation.

> "Proposition 30 established the Education Protection Account (EPA) to receive the additional tax revenue that will be collected from the higher sales tax and income tax rates. These funds will be apportioned from the EPA to local educational

agencies (LEAs) as part of their revenue limit in June 2013. However, LEAs will not see a net boost in state funding. Instead, EPA funds will simply replace state General Fund aid on a dollar-for-dollar basis. In order to account for the EPA funds and to ensure flat funding in 2012-13, the state will reduce districts' revenue limit funding by 21.2% temporarily through May 2013. This reduction will be equivalent to the estimated $6.9 billion that will be apportioned to school districts and county offices of education from the EPA in June 2013, which in turn will backfill the temporary reduction.

Ultimately, each LEA will receive flat funding in the current year, but must manage with less cash through May 2013, both thanks to the passage of Proposition 30." (School Services of California, *The Fiscal Report*, Vol. 32, No. 24)

Reserves for PERS Recapture ("PERS Reduction") 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 become an on-going 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 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 to be unresolved.

The MetroED Governing Board has recognized the potential financial liability to the District, and has directed that reserves be established in the District Special Reserve Fund 170 for both the General and Adult Education funds.

Contingency Reserves for State Deficits

In response to the state budget crisis MetroED has reserved $1,052,351 in the General Fund and $709,841 in the Adult Education Fund ending balances as "Contingency for State Deficits." The plan is for these contingency reserves to be used to supplement the District's fifteen percent reserves during the budget year and the projected two years to off-set the declining revenues from the state.

Employee Salaries and Benefits

The 2012-13 budget, and two projected years include projected step, column and longevity salary and statutory benefit increases for district employees. 5% increases in the district's contribution to employee health benefits is also budgeted. No salary increases for COLA for 2012-13 and the two subsequent years is included in the multi-year projections.

1st Interim Budget Adjustments

Budget transfers and adjustments for the current year are approved by the Governing Board on a monthly basis. Consequently, there are few adjustments presented in the 1stInterim Report that have not already been approved.

Multi-Year Projection (MYP) Assumptions

For the General Fund 010 and Adult Education Fund 110, we have provided detailed multi-year projections, with all budget assumptions and calculations. Budget assumptions for the two projected years are based on School Services of California's (SSC) "dartboard" projections, historic spending patterns, COLA for applicable expenditure accounts, increases in salary accounts for step, column and longevity adjustments, health and welfare increases and district goals. Revenues and expenses are summarized at a four-digit object code level. Comparative data is provided for the following six year period:

- 2009-10 Actuals
- 2010-11 Actuals
- 2011-12 Unaudited Actuals
- 2012-13 First Interim
- 2013-14 Projected
- 2014-15 Projected

Budget Presentation

Presentation of the First Interim Report includes "Budget at a Glance" that summarizes the proposed budgets for all the district's funds and "Monthly Budget Adjustments" showing all changes from the last budget update approved by the Board. The Capital Outlay Fund 400 has been divided to separately show the resources available for the Central County Occupational Center (CCOC) and the Adult Education programs for San Jose. Required state forms are provided in the sections identified in the Table of Contents.

Fund 010: General Fund (CCOC/P)

General Fund - Purpose: Fund 010 is the General Fund for the Central County Occupational Center and Programs (CCOC/P), which includes the ROP programs in the high schools of the six participating districts.

General Fund - Certification: The administration is recommending a positive certification. This means that the General Fund will meet its financial obligations for the budget and two subsequent fiscal years; will maintain at least the board required 15% in reserves, and will end the year with a positive cash balance. While state revenue limit funding is now a fixed amount, MetroED continues to calculate revenue limit and ADA for internal purposes.

General Fund - Assumptions:

FUND 010 ASSUMPTIONS	2012-13	2013-14	2014-15
Revenue Limit COLA	0.00%	0.00%	2.30%
Revenue Limit Reduction	0.00%	0.00%	0.00%
Total ROCP Revenue Limit	$2,769.96	$2,769,96	$2,833.67
Total Projected ROP ADA Cap	4,155.57	4,155.57	4,155.57
Reserve-Economic Uncertainty	10.00%	10.00%	10.00%
General Reserve for Cash Flow	5.00%	5.00%	5.00%
Employer Paid Benefits Increase	5.00%	5.00%	5.00%
Employer Paid Benefits Maximum CAP	$15,089	$15,844	$16,637
Salary Increase COLA	0.00%	0.00%	0.00%

General Fund - Revenues: The major adjustment from the November budget revision is inclusion of estimated Excess Properties Taxes for ROC/P in 2012-2013 and the two subsequent years. Since excess property tax figure could be volatile, the District, in the past, did not include it in the budget until the actual amount was known (as advised by the California Department of Education). However, due to the several onetime expenditure needs in 2012-2013, the projected amount of $1,000,000 is included in the budget year and two subsequent years. Because of a slowdown in the housing market, the amount is conservatively projected. The actual amount will be known at the P-2 Certification, late June, 2012 and the budget will be adjusted accordingly. Projected lottery is increased by $12,625. On the other hand, the projected reimbursement for Capitol High School is reduced due to the low enrollment. The projected fees for CCOC evening classes are also reduced due to low enrollment.

General Fund - Expenditures: Major changes from the November budget update are as follows:

- Update of salaries and benefits including 9.53% increase in CalPERS health insurance premium effective January 1, 2013;
- Inclusion of projected excess property tax distribution among the member districts for the purpose of equalization;
- Additional IT Technician position to aid the technical support needed during Prop 1D modernization.

See Budget Adjustments-1st Interim Report for more detail of changes.

General Fund - Other Financing Sources/Uses:
The transfer in from Deferred Maintenance Fund in the amount of $168,385 represents the last advance payment of Deferred Maintenance Hardship Fund. The District's match for the deferred maintenance program is included for $166,466 and additional General Fund support in the amount of $67,480 is added for LEA programs. The transfers to set up the reserve in the amount of $50,000 for the mandated costs reimbursement reserve and $200,000 for Prop 1D audit reserve, which were approved by the Board as a part of the assigned fund balance in the 2011-12 Unaudited Actuals Report.

General Fund - Fund Balance: The State's habitual apportionment deferrals and the delay in approving a State budget have created a serious cash flow challenge for school districts and MetroED is no exception. The Governing Board has approved the combined reserve amount of Economic Uncertainty and General Reserve for Cash Flow from 10% to 15% in November, 2010. The Contingency for State Deficits was increased as a result of overall increase in the total revenues.

General Fund -Multi-Year Projections: The multi-year projections include the projected state COLAs, as recommended by School Services. There is deficit spending projected for 2012-13. However it is largely due to the expenditures of one-time nature, such as transfers out to the Capital Outlay and Deferred Maintenance Funds. There are sufficient funds in the fund balance to cover this deficit. The following chart summarizes the high points of operations for the 1st Interim Budget and two projected years:

GENERAL FUND – OPERATIONS	**2012-13**	**2013-14**	**2014-15**
Total Revenues	14,775,947	14,734,356	15,047,965
Total Expenditures	15,348,581	15,111,707	15,333,413
Net Revenues/Expenses	(572,634)	(377,351)	(285,449)
Other Sources (Uses)	(308,359)	(209,630)	(202,662)
Change to Fund Balance	**(880,993)**	**(586,981)**	**(488,111)**

The deficit spending for 2012-2013 exceeded the standard largely due to the transfer of $250,000 which was made to the Special Reserve Fund for Capital Outlay, Fund 400 and the Special Reserve Fund F-170. This is one time transfer to set up the reserve for Prop 1D audit for potential ineligible expenditures as well as the reserve for a potential liability of the prior year State mandated costs claim of Collective Bargaining mandate.

The District has made conscious efforts in reducing the deficit spending and continues to evaluate both potential revenue enhancement as well as reduction of expenditures as a result of finding more efficient ways of doing business.

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 1st Interim Budget and two projected years:

GENERAL FUND – FUND BALANCE	**2012-13 BUDGET**	**2013-14 PROJECTED**	**2014-15 PROJECTED**
Reserved, Restricted, & Assigned:			
Revolving Fund, Prepaid	20,000	20,000	20,000
General Reserve (5%)	791,626	766,608	777,345
Legally Restricted Balances	0	0	0
Contingency for State Deficits	1,052,351	540,425	20,103
Other Designated/Assigned	222,130	222,130	222,130
Total Reserved, Restricted & Assigned:	**2,338,566**	**1,606,218**	**1,047,699**
Economic Uncertainty (10%)	**1,583,253**	**1,533,216**	**1,554,690**
Total Fund Balance	**3,846,203**	**3,082,379**	**2,594,268**

No provisions for salary increases for COLA are included. However, provision is made for salary increases due to step, column and longevity advancement, increases in the district contribution to employee health and welfare benefits and COLA increases for impacted expenditure accounts, such as materials and other operating expenses. The projections anticipate full funding of the district's match for Deferred Maintenance.

Reserves are maintained at the new minimum of 15% (10% for Economic Uncertainty, 5% General Reserve).

Contingencies for state deficits: Funds are designated (assigned) in the current and two subsequent years as contingencies for state deficits. These will be used against any unforeseen budget items of material sizes (surprises if any), possible mid-year budget cuts, and further cuts from the adoption of the 2012-13 State budget.

Fund 110: Adult Education

Adult Ed Fund - Purpose: The Adult Education Fund is used to account separately for federal, state and local revenues for Adult Education programs. Since Campbell Union High School District took back their adult education program as of July 1, 2010 and the San Jose Unified School District reduced their adult education funding by $3.5 million in December, 2010, the MAEP budget has been reduced significantly. Total Revenues for the Adult Education program have gone from $11,499,360 in 2009-10 to $3,841,995 projected for 2012-13. MetroED administers the Adult Education program for San Jose Unified School District under a Master Business Relationship Agreement.

Adult Ed Fund - Certification: The administration is recommending a positive certification. This means that the Adult Education Fund 110 will meet its financial obligations for the budget and two subsequent fiscal years; will maintain a 15% reserve (10% Reserve for Economic Uncertainty and 5% General Reserve), and will end the year with a positive cash balance. The spending deficits for the current and two subsequent years are covered by the Contingency for State Deficit and the reserves. While state revenue limit funding is now a fixed amount, MetroED continues to calculate revenue limit and ADA for internal purposes.

Adult Ed Fund - Budget Assumptions:

FUND 110 ASSUMPTIONS	2012-13	2013-14	2014-15
Revenue Limit COLA	0.00%	0.00%	2.30%
Revenue Limit Reduction	0.00%	0.00%	0.00%
ADA CAP Growth	0.00%	0.00%	0.00%
Total District ADA CAP	2,301.39	2,301.39	2,301.39
Reserve-Economic Uncertainty	10.00%	10.00%	10.00%
General Reserve for Cash Flow	5.00%	5.00%	5.00%
Employer Paid Benefits Increase	5.00%	5.00%	5.00%
Employer Paid Benefits Maximum CAP	$15,089	$15,843	$16,635
Salary Increase COLA	0.00%	0.00%	0.00%

Adult Ed Fund - Revenues: A major change in this area is the reduction of projected fees for the LEA//teacher credentialing program. Additionally, the estimated CTE teacher grant in the amount of $25,000 has been removed from the budget. These revisions have been made to reflect trend observations and projection updates.

Adult Ed Fund - Expenditures: Major changes since the budget updates approved by the Board on November 14, 2012, include updates to the salaries and benefits budgets which reflect new hires, terminations, and assignment changes.

See Budget Adjustments, 1st Interim Report, for detail of the adjustments.

Adult Ed Fund - Other Financing Sources/Uses: Additional General Fund support in the amount of $67,480 is included for LEA /teacher credentialing program.

Adult Ed Fund - Fund Balance:
The entire amount of fund balance is classified as "Committed." Under the flexibility provisions of Tier III categorical programs, the adult education revenues are unrestricted. Therefore, the MetroED Board adopted a resolution on October 12, 2011 to commit the fund balance in Adult Education Fund, Fund 110, for purpose of Adult Education.

Adult Ed Fund - Multi-Year Projections:

ADULT ED FUND – OPERATIONS FUND 110	**2012-13**	**2013-14**	**2014-15**
Total Revenues	3,841,994	3,642,533	3,833,497
Total Expenditures	4,633,104	4,290,165	4,266,151
Net Revenues/Expenses	(791,109)	(647,632)	(432,655)
Other Sources (Uses)	67,480	266,548	43,187
Change to Fund Balance	(723,630)	(381,084)	(389,467)

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 1st Interim Budget and two projected years. Although the entire amount is classified as "Committed Fund Balance for Adult Education Program, below is the breakdown of the committed fund balance.

ADULT ED FUND – FUND BALANCE FUND 110	**2012-13**	**2013-14**	**2014-15**
RESERVE, RESTRICTED, & ASSIGNED			
Reserve for Prepaid	13,573	0	0
General Reserve (5%)	231,655	214,508	213,308
Contingency for State Deficits	709,841	393,771	7,905
Total Reserve, Restricted, & Assigned	**955,070**	**608,279**	**221,213**
Unassigned Economic Uncertainty (10%)	**463,310**	**429,016**	**426,615**
Total Fund Balance	**1,418,379**	**1,037,295**	**647,828**

There is no provision made for employee salary increases. However, the projections include salary increases for step, projected column and longevity advancement, increases in the district contribution to employee health and welfare benefits and COLA increases for impacted expenditure accounts such as supplies and other operating expenses.

Reserves are maintained at 15% (10% for Economic Uncertainty and 5% General Reserve).

Grant Funding: The ability of the Adult Education program to generate a positive contribution to its fund balance is greatly dependent upon federal, state and local grants. MetroED Adult programs have been highly successful in obtaining grant funding over the years. However, continued funding is dependent on federal and state budget priorities. Consequently, grant funds should be considered "soft money" in terms of commitments to long term expenditures.

Fund 140: Deferred Maintenance

Deferred Maintenance Fund - 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 primarily at the Central County Occupational Center (CCOC), as approved under the 5-year Deferred Maintenance plan approved by the Office of Public School Construction (OPSC). Under the state's budget flexibility provisions, the requirement for a board-approved 5-year Deferred Maintenance plan has been suspended. However, MetroED has chosen to voluntarily continue with the 5-year plan. Deferred Maintenance apportionments are considered by the state to be General Fund, unrestricted. The District has also chosen to continue to fund Deferred Maintenance as it has in the past. The Board also adopted a resolution on October 12, 2011 to commit the fund balance in the Deferred Maintenance Fund, Fund 140, for purpose of Deferred Maintenance Program.

Deferred Maintenance Fund - Certification: The administration is recommending a positive certification. This means that the Deferred Maintenance Fund 140 will be able to meet its financial obligations for the budget and subsequent two fiscal years and will end the year with a positive cash balance.

Deferred Maintenance Fund–Revenues/Transfers In: No changes

Deferred Maintenance Fund–Expenditures/Transfers Out: The expenditure budget is increased by the additional painter position which was needed due to the frequent move/relocation of CCOC programs caused by Prop 1D modernization.

Deferred Maintenance Fund 140	**2012-13 Budget**	**2013-14 Proposed**	**2014-15 Proposed**
Revenues & Other Sources:			
State Regular DM Funding	166,466	170,461	175,063
State Extreme Hardship Funding	168,385	0	0
District Match Contribution	166,466	170,461	175,063
Interest Income	6,735	6,896	7,082
Total Income	**508,052**	**347,818**	**357,208**

Deferred Maintenance Fund 140	**2012-13 Budget**	**2013-14 Proposed**	**2014-15 Proposed**
Uses of Funds:			
Electrical Projects	50,000	50,000	50,000
Floor Covering	80,000	60,000	60,000
HVAC (Gas line replacement)	50,000	50,000	50,000
Painting Projects	157,145	117,575	118,516
Paving Projects	84,420	0	0
Wall Systems	20,000	20,000	20,000
Plumbing Projects	45,000	50,000	50,000
Sewer project by Hardship	25,000	0	0
Building 6 Upgrades	21,292	0	0
Building 400 Upgrade	35,954	0	0
Transfer to General Fund (Loan Repayment)	168,385	0	0
Total Expenditures and Transfer Out	**737,196**	**347,575**	**348,516**
Fund Balance:			
Beginning Fund Balance	***841,064***	***611,919***	***612,162***
Ending Fund Balance	***611,919***	***612,162***	***620,854***

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

Special Reserve Fund - Purpose: The Special Reserve Fund for Other Than Capital Outlay Projects accounts for the accumulation of General Fund money for purposes other than capital outlay. Included in this fund are reserves for future legal costs and reserves for the PERS recapture liability.

Special Reserve Fund - Certification: The administration is recommending a positive certification. This means that the Special Reserve Fund 170 will be able to meet its financial obligations for the budget and subsequent two fiscal years and will end the year with a positive cash balance.

Special Reserve Fund - Revenues: The interest is budgeted at $5,733 and the transfer from the General Fund in the amount of $50,000 is included to establish the reserve for potential liability of the prior year collective Bargaining mandated costs reimbursements.

Special Reserve Fund - Expenditures: There are no expenditures budgeted.

Special Reserve Fund - Other Financing Sources/Uses: There are no changes for the current year. In 2014-15, it is projected to transfer the reserve set aside for PERS Recapture Liability back to Adult Education (Fund 110).

Special Reserve Fund 170	2012-13 Budget	2013-14 Proposed	2014-15 Proposed
Revenues & Transfers In:			
Revenue	5,733	5,871	5,754
Transfers In	50,000	0	0
Total Revenues	**55,733**	**44,013**	**36,414**
Expenditures & Transfers Out:			
Expenditures	0	0	0
Transfers Out	0	0	211,041
Total Expenditures	**0**	**0**	**211,041**
Change to Fund Balance	55,733	5,871	(205,287)
Fund Balance:			
Beginning Fund Balance	**766,691**	**822,424**	**828,295**
Reserved & Designated:			
Legal Reserve	189,395	185,738	187,121
PERS Recapture Liability	633,029	642,557	435,887
Ending Fund Balance	**822,424**	**828,295**	**623,008**

Fund 210: Building Fund-Asset Management

Asset Management Fund - Purpose: This is otherwise known as the 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 Capitol 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.

Asset Management Fund - Certification: The administration is recommending a positive certification. This means that the Asset Management fund will be able to meet its financial obligations for the budget and subsequent two fiscal years, and will end the year with a positive cash balance.

Asset Management Fund - Revenues/Transfers In: There are no changes in this area.

Asset Management Fund - Expenditures/Transfers Out: The district's 50% match requirement for several Prop. 1D equipment grants are budgeted in this fund. The CTE equipment is purchased in alignment with the renovation/upgrades of each building. Therefore, the equipment expenditures budget is reduced to match the current construction timelines.

ASSET MANAGEMENT FUND 210	2012-13 Budget	2013-14 Projected	2014-15 Projected
Revenues:			
Lease Revenue	184,788	275,797	275,797
Interest Income	8,995	9,805	9,903
Total Revenues	**193,783**	**285,602**	**285,700**

ASSET MANAGEMENT FUND 210	2012-13 Budget	2013-14 Projected	2014-15 Projected
Expenditures:			
Prop 1D equipment Grants-Match	318,810	0	0
3% District Management Fee	7,202	7,202	7,202
Total Expenditures, Transfers	**326,012**	**7,202**	**7,202**
Fund Balance:			
Beginning Fund Balance	**1,147,271**	**1,034,384**	**1,342,784**
Reserved & Designated:			
Health & Safety Reserve	50,000	50,000	50,000
Prop 1D Projects Match (Equip)	0	0	0
Reserve for County Share Rent	62,592	62,592	62,592
Minimum Required Reserve	250,000	250,000	250,000
Other: Undesignated	652,450	980,192	1,258,691
Ending Fund Balance	**1,015,042**	**1,342,784**	**1,621,283**

Any unspent funds from this account revert back to the fund balance at the end of each year. The fund maintains a minimum $250,000 reserve, as required by the Joint Powers Agreement.

Fund 350: County School Facilities Funds

County School Facilities Fund - 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 are released when the District submits the funding request after Division of State Architect's approval.

County School Facilities Fund - Certification: The administration is recommending a positive certification. This means that the County School Facilities Fund will be able to meet its financial obligations for the budget and subsequent two fiscal years and will end the year with a positive cash balance.

County School Facilities Fund - Revenues: Interest only projected interest income is budgeted for $20,895 because all Prop 1D grants have been received from the State.

County School Facilities Fund - Expenditures: Estimated expenditures are shown by project, based on the preliminary timeline for completion of each project. These represent only 50% of the cost of each project. The District's match is recorded in the Capital Outlay Fund 400 or Asset Management Fund 210.

COUNTY SCHOOL FACILITIES FUND 350	2012-13 Budget	2013-14 Projected	2014-15 Projected
Revenues:			
Interest Earnings	20,895	0	0
Prop 1D State Apportionments	0	0	0
Total Revenues	**20,895**	**0**	**0**
Expenditures:			
Total Expenditures	**2,652,023**	**0**	**0**
Fund Balance:			
Beginning Fund Balance	**2,928,639**	**297,511**	**297,511**
Ending Fund Balance	**297,511**	**297,511**	**297,511**

Fund 400: Special Reserve Fund for Capital Outlay

Capital Outlay Fund - 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. Amounts are appropriated for expenditures as projects are planned and executed.

The facilities on the CCOC campus are showing considerable wear as they near 40 years in age, and are in need of modernization, MetroED, as a ROCP JPA, has been approved for $9,776,719 in Proposition 1D grants for equipment, facility modernization and program reconfiguration. The District has been saving for the required Proposition 1D grant matches in this fund.

Capital Outlay Fund - Certification: The administration is recommending a positive certification. This means that the Capital Outlay Fund will be able to meet its financial obligations for the budget and subsequent two fiscal years and will end the year with a positive cash balance.

Capital Outlay Fund - Revenues/Transfers In: $200,000 is transferred in from the General Fund to set up the reserve for potential disallowed expenditures.

Capital Outlay Fund - Expenditures/Transfers Out: Changes in this category reflect changes to Capital Projects scheduling.

Capital Outlay Fund - Ending Fund Balance: Included in the Fund 400 fund balance for CCOC is $812,008 which is held on deposit by a trustee for repayment of a $1 million QZAB. The balance of the funds is designated for the match for Proposition 1D facility modernization grants and the adult education facility upgrades.

SPECIAL RESERVE-CAPITAL OUTLAY PROJECTS FUND 400	**2012-13 Budget**	**2013-14 Projected**	**2014-15 Projected**
Revenues & Transfers In:			
Revenue	50,412	44,013	36,414
Transfers In	200,000	0	0
Total Revenues	**250,412**	**44,013**	**36,414**
Expenditures & Transfers Out:			
Expenditures	3,461,678	106,000	101,000
Transfers Out	0	0	0
Total Expenditures	**3,461,678**	**106,000**	**101,000**
Fund Balance:			
Beginning Fund Balance	**4,222,163**	**1,695,553**	**1,119,078**
Reserved & Designated:			
Prop 1D Projects	0	0	0
Facilities Reserve-General	184,026	772,700	694,437
Facilities Reserve-Adult Ed	2,032	11,684	6,754
QZAB Reserve	824,839	849,182	867,789
Ending Fund Balance	**1,010,897**	**1,633,566**	**1,568,980**

Economic Factors Bearing on the Districts Future:

Based on UCLA's forecast, the sluggish economy will continue for at least a few more years, and the California's financial recovery will be slow at best. MetroED programs are categorically funded by the state and remain under flexibility scheduled through June of 2015. Therefore, reduced block grant funding remains as the base revenue for both the General and Adult Education Funds for the upcoming years. The District is also projecting reduced grant funding, especially for the adult education program.

It is difficult to deal with the reduced funding, apportionment deferrals, and the uncertainty associated with a volatile economy. Based on the current assumptions, the District will maintain fiscal solvency for the current year as well as two subsequent years. However, with the program's uncertainty and the gloomy economic forecast, we must move forward cautiously in these economically precarious times.