

Metropolitan Education District
2009-10 Unaudited Actual Financial Report
September 8, 2010

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.

State Budget 2010-2011

As of September 1, 2010, there’s no resolution on the 2010-2011 State budget as the Legislature and the Governor have not agreed on solutions to close a State budget deficit of more than \$19 billion. In absence of an enacted 2010-2011 State Budget, the State cannot secure short term financing for the State cash flow needs, which may impact future K-12 apportionment payments.

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 ROCP 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 state forms. However, for purposes of consistency and comparability, the Multi-Year Projections, Comparative: Unaudited Actuals to Estimated and Unaudited Actuals at a Glance have retained the same format used in prior periods.

District Cash Flow Issues

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

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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 since the 2008-09 school years as the state, because of its own cash flow problems, has 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 apportionment schedule as K-12 districts. This also means that MetroED is subject to the same deferrals as K-12 districts as per ABX4 16. At the end of 2009-2010, the district has approximately 39% of its apportionments as receivable. Although SB 1197 was enacted and the district began receiving the ROCP funds directly from the County Office of Education effective January 2010, fund transfers usually have come much later than the rest of the school districts- sometimes as much as three months later. In addition to deferrals at the State level, the Santa Clara County Office of Education made several changes in the apportionment process, which has caused several months of apportionment delays for both MetroED and its participating districts. This created an ongoing cash management challenge throughout 2009-2010. The following chart summarizes the yearend cash positions of the General and Adult Education Funds:

Balance Sheet	General Fund	Adult Ed Fund	Total
Cash at County Treasurer	1,626,945	888,378	2,515,323
Cash-Revolving Funds	43,350	19,726	63,076
Accounts Receivable	6,616,127	3,026,555	9,642,682
Due from Other Funds	174,949	119,515	294,464
Stores/Inventory	10,440	0	10,440
Total Assets	8,471,811	4,054,174	12,525,985
Accounts Payable	1,186,468	1,631,622	2,818,090
Due to Other Funds	2,619,719	61,801	2,681,520
Total Liabilities	3,806,187	1,693,423	5,499,610
Ending Fund Balance	4,665,624	2,360,751	7,026,375
Total Liabilities & Fund Balance	8,471,811	4,054,174	12,525,985

Cash at the County Treasurer for these two primary funds totals \$2,515,323, \$1.5 million of which was borrowed from the Capital Outlay Fund. Note that current liabilities, including the District's July 10 payroll, totals \$2,818,090. This cash situation is clearly inadequate for addressing the District's cash flow needs. Of the \$9,642,682 in Accounts Receivable, \$1.3 million was being held at the County Office of Education while they reconciled posting errors. Most of the balance is from apportionments due from the state that were deferred.

While it appears that these two funds have large fund balances (\$7,026,375), these are not available funds since almost 1.4 times that amount is tied up in receivables from the County and State.

Given the projections of continuing state deficits in the next 2-3 years, the District policy of 10% reserves for cash flow is inadequate. The administration is analyzing the

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District's cash flow needs going forward, and will bring a recommendation to the Board in the near future for an adjustment of that policy.

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. These reserves are held in Fund 170, "Special Reserve for other than Capital Outlay Projects."

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 \$1,123,047. The largest component of the differential is the 2009-2010 Excess Property Tax revenue. This revenue is historically allocated one year in arrears at CDE's P-annual certification. However, the California Department of Education changed the process to recognize this revenue at the P-2 certification, effective 2009-2010. This change in the apportionment process caused the district to account for the 2008-2009 as well as the 2009-2010 excess property taxes in the same year. Excess property tax is still considered a volatile revenue source and adjustments will be brought back at the P-

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annual certification as a prior year adjustment. 2009-2010 excess property taxes in the amount of \$1,187,604 are reserved, pending approval by the Board on how these funds will be used.

Fund 010 Expenditures: Final expenditures were \$967,804 less than estimated. This was due to savings in numerous areas as District programs and departments implemented internal restrictions on spending due to state budget concerns.

Fund 010 Other Financing Sources/Uses: Transfers out to the Capital Outlay Fund 400 increased by \$570,985: \$222,258 is the general fund's portion of the district match for the Cycle 3 Prop 1D equipment grant, \$300,000 for the estimated cost of replacing deteriorating gas lines on the CCOC campus, and \$48,727 for trustee fees and to cover a temporary negative cash position in the QZAB account. \$257,936 was transferred to the Special Reserve Fund F-170 for the SCCOE cash reconciliation reserve. The district used to maintain the financial system independently. When the district converted to the dependent QSS financial software maintained by Santa Clara County Office of Education, a phantom Fund 810 (SELPA) was created with a negative cash balance of \$257,936 to offset an employee salaries and benefits payable. It is understood that the fund was created to track the cash flow but not real. However, due to personnel turnover at both the District and the County Office of Education, this negative cash balance of \$257,936 has been carried as a reconciling item. Whether or not it is owed to the County is a matter of dispute, and MetroED has requested a complete reconciliation and, if necessary, an independent audit, to determine the actual amount owed, if any. Pending resolution of this matter, this reserve has been established to cover any potential liability by the District.

Fund 010 Fund Balance: For the year, the net increase in fund balance was \$1,974,296. See following chart for detail of the reserves and designations:

General Fund 010:		
Components of Fund Balance		2009-10
Reserved - Revolving Cash & Store		30,440
General Reserve for Cash Flow	(4%)	633,754
Legally Restricted Balances		517,977
Designated: Economic Uncertainties	(6%)	950,631
Designated: Contingency for State Deficits		1,008,472
Designated: CCOC Work Experience Classes		71,615
Designated: Professional Development Block Grant		50,165
Designated: Equipment Reserve-Lottery		214,965
Designated: Excess Property Tax Reserve		1,187,604
Total Designated & Reserves		4,665,623
Undesignated Fund Balance		-0-
Total Fund Balance		4,665,623

The Economic Uncertainties and General Reserves are continued at 6% and 4% respectively. \$1,008,472 is set as contingency for state deficits in anticipation of additional cuts to education budgets for the 2010-11 school year, as well as to enhance District cash flow. The excess property taxes are historically allocated one year in arrears at a CDE's P-annual certification. However, the California Department of

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Education changed the process recognize these funds at the P-2 certification, effective 2009-2010. This change in the apportionment process caused the district to account for the 2008-2009 and the 2009-2010 excess property taxes in the same year. Excess property tax is still considered volatile and any changes will be brought back at the P-annual certification as a prior year adjustment. The CCOC work experience programs (students work on real customers for materials fees) have a carryover funds in the amount of \$71,615. The lottery fund balance of \$214,965 is aside for furniture & equipment replacement needs.

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 was more than estimated by \$101,074. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes.

Fund 110 Expenditures: Final expenditures were \$711,459 less than estimated. The savings were in numerous categories, but primarily due to; (1) the expenditure budget did not get updated by the cancelled classes, and (2) budget savings were recognized as the program limited expenditures due to uncertainties related to the state budget..

Fund 110 Other Financing Sources/Uses: The carryover funds of LEA credentialing program in the amount of \$55,141 was transferred to the Special Reserve Fund, F-170 until 2010-2011. This is the remaining balance from the initial start-up funds of \$83,000 approved by the Board from the one-time excess property taxes of 2008-2009 (received in 2009-2010).

Fund 110 Fund Balance: The amount of \$1,164,863 is set aside as a transfer of the ending fund balance for Campbell Union High School District's share of the Metropolitan Adult Education Program (MAEP). Campbell Union High School District started administering its own adult education program effective 2010-2011. There was an increase in fund balance of \$115,067. See the following chart for detail of reserves and designations

Adult Education Fund 110:		
Components of Fund Balance		2009-10
General Reserve	(4%)	378,065
Designated: Economic Uncertainties	(6%)	567,097
Designated: Contingency for State Deficits		694,589
Designated: New Program Development & Online Classes		400,000
Designated: Site Safety Improvement		100,000
Designated: Professional Development		100,000
Designated: Equipment Needs		121,000
Total Designated & Reserves		2,360,751
Undesignated Fund Balance		0
Total Fund Balance		2,360,751

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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 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: Deferred Maintenance Fund revenue was less than the Estimated Actuals by \$7,909 due to the lower than projected interest income.

Fund 140 Expenditures: The difference between estimated and actual expenditures was minimal. The paving behind the Building 400 was completed for additional parking spaces for a total cost of \$88,019 in 2009-2010. A storage shed will be built in 2010-2011 to store the grounds maintenance equipment. Some plumbing work for the gas leak at building 700 was completed for \$20,441 in 2009-2010. An additional \$300,000 is set aside in the Special Reserve Fund for Capital Outlay, F-400, to pay for replacement of the rest of the gas lines on the CCOC campus.

Fund 140 Other Financing Sources/Uses: Deferred Maintenance funding is a part of the Tier III Categorical programs, leaving the program "unrestricted" for five years effective 2008-2009. Therefore, the Deferred Maintenance revenues are accounted for in the General Fund F-010. Because the District has several on-going deferred maintenance needs at CCOC, the funds are transferred from the General Fund to the Deferred Maintenance Fund for the deferred maintenance projects expenditures. \$335,229 was transferred to the Deferred Maintenance Fund, representing both the state deferred maintenance funding and the District's match for 2009-10.

Fund 140 Fund Balance: For the year, the ending fund balance was \$1,112,910. All the balances were designated for the projects identified in the last 5-year Deferred Maintenance plan, including the Deferred Maintenance Extreme Hardship 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). Since its inception, the fund is used for reserves for other potential liabilities and projects that are not Capital Outlay.

Fund 170 Revenues: Final revenue is \$11,630 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.

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Currently there were no expenditures recorded in this fund. The reserve previously held for the mandated costs claim audit in the amount of \$93,946 was transferred back to the general fund, Fund-010, as the potential for a mandated costs audit has become unlikely.

Fund 170 Other Sources/Uses: \$346,077 was transferred into this fund during the year, \$55,141 transferred from Adult Education Fund 110 for the LEA program budget carryover and \$257,936 SCCOE cash reconciliation reserve transferred from the General Fund 010. The district used to maintain the financial system independently. When the district converted to the dependent QSS financial software maintained by Santa Clara County Office of Education, the phantom Fund 810 (SELPA) was created with a negative cash balance of \$257,936, which offset an employee salaries and benefits payable. It is understood that the fund was created to track the cash flow but was not real. However, due to employer turnover at both the district and the County Office of Education, this negative cash balance of \$257,936 has been carried as a reconciling item. Whether or not it is owed to the County is a matter of dispute, and MetroED has requested a complete reconciliation and, if necessary, an independent audit, to determine the actual amount owed, if any. Pending resolution of this matter, this reserve has been established to cover any potential liability by the District.

Fund 170 Fund Balance: For the year, the ending fund balance was \$1,099,466. The following chart details the various designations of the fund balance.

Special Reserve Fund 170: Other than Capital Outlay Components of Fund Balance	2009-10
Reserve for LEA Program Budget Carryover- Adult Ed.	55,141
Reserve for SCCOE Cash Reconciliation –General Fund	257,936
Reserve for PERS Recapture Liability-General Fund	415,670
Reserve for PERS Recapture Liability-Adult Education	204,387
Reserve for ROCP Attendance Software-General Fund	32,999
Reserve for Potential Legal Costs-General Fund	100,000
Reserve for Potential Legal Costs-Adult Education	33,333
Total Fund Balance	1,099,466

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 \$196,418, included lease revenue for of \$184,448 and interest revenue was \$11,969.

Fund 210 Expenditures: Expenditures were limited to \$38,249, which were match funds for Proposition 1D equipment grants.

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Fund 210 Interfund Transfers Out: The annual 3% management fee transfer to the General Fund was \$7,202. There were no other transfers in or out.

Fund 210 Fund Balance: For the year, the ending fund balance was \$1,316,900. Board policy requires a minimum reserve of \$250,000. \$826,064 is designated for the District's 50% match for the Proposition 1D equipment grants.

Building Fund 210 (Asset Management): Components of Fund Balance		2009-10
Prop 1D – Bldg 200 Equipment (Res: 9508)		55,132
Prop 1D – Bldg 300 Equipment (Res: 9509)		13,887
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
Prop 1D – Bldg 700 Equipment (Res: 9516)		211,881
Minimum Fund Reserve-Board Policy		250,000
Health & Safety Reserve		50,000
Designated for future CCOC Program Upgrades		190,836
Total Fund Balance		1,316,900

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 CCOC modernization projects that have been approved by the State under Proposition 1D. Proposition 1D funds provide the district with the funds to reconfigure the existing facilities for the career technical education programs. The District has 16 Proposition 1D projects as of 2009-2010.

Fund 350 Revenues: During 2009-2010, State Prop 1D funds for twelve were released to the district for a total of \$5,316,738. Since we have already received the facilities funds for two projects in 2008-09, the funds for the last two projects for the Building 100 are expected to be released in 2010-2011.

Fund 350 Expenditures: Several modernization projects were underway during 2009-2010. The modernization project on the Building 300 was 95 percent complete as of 6/30/10, for a total of \$3,011,929, 50% of which was expended from this 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 Revenues, Expenditures and Other Financing Sources/Uses: The following chart summarizes the Capital Outlay Fund activity for 2009-10. \$152,678 was set aside

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as a payable to Campbell Union High School District as its portion of the ending fund balance. For the Adult Education program reserve for the San Jose unit, construction of MC Village was completed on November 1, 2009 for a total costs of \$1,663,705.

Fund 400 Interfund Transfers In:

\$300,000 was transferred from the general fund to establish a reserve for replacement of the gas lines at CCOC. \$15,000 was transferred from the general fund to set aside the required funds for trustee fees for the remainder of the term of the QZAB. \$33,727 was transferred from the General Fund to cover a temporary negative cash position in the QZAB resource code. The following chart summarizes the activity of Fund 400:

Capital Outlay Fund 400: Revenues & Expenditures	CCOC	Adult Ed San Jose	Adult Ed Campbell
Beginning Fund Balance	8,524,917	1,598,869	155,719
Sources of Funds:			
Interest Earnings	102,219	4,466	1,667
Transfers In	348,727	0	0
Total Sources of Funds	450,946	4,466	1,667
Uses of Funds:			
Project Expenditures	1,687,824	1,262,408	4,707
Debt Service-QZAB Bond	19,500	0	0
Total Uses of Funds	1,707,324	1,262,408	4,707
Increase (Decrease) to Fund Bal.	(1,256,378)	(1,257,942)	(3,040)
Fund Balance Restatements	0	0	(152,679)
Ending Fund Balances	7,268,539	340,927	0

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 400: Components of Fund Balances	CCOC	Adult Ed San Jose	Adult Ed Campbell
Cash-Fiscal Agent (QZAB Repayment)	790,761	0	0
Prop 1D – Bldg 300 (Res: 9501)	208,937	0	0
Prop 1D – Bldg 800 (Res: 9502)	820,682	0	0
Prop 1D – Bldg 200 (Res: 9503)	238,045	0	0
Prop 1D – Bldg 100 (Res: 9504)	1,284,080	0	0
Prop 1D – Bldg 100 (Res: 9505)	232,413	0	0
Prop 1D – Bldg 200 (Res: 9506)	1,173,099	0	0
Prop 1D – Bldg 600 (Res: 9507)	1,308,820	0	0
Prop 1D – Bldg 700 (Res: 9512)	254,275	0	0
Prop 1D – Bldg 300 (Res: 9513)	171,571	0	0
Prop 1D – Bldg 100 (Res: 9514)	480,307	0	0
Other CCOC Site Improvements	305,549	0	0
San Jose Adult Ed. Site Improvement		340,927	0
Ending Fund Balance	7,268,539	340,927	0