Metropolitan Education District

Second Interim Financial Report

March 14, 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 Second 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 Second Interim Report covers the financial and budgetary status of the District for the period ending January 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 a “snapshot” 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 June 2011, during the 11th hour of Budget development, leaders in the Legislature and Governor Jerry Brown chose to increase the forecast of state General Fund revenues by $4 billion, based largely on receipt of higher-than-anticipated revenues in May. Higher receipts triggered hopeful optimism that robust revenue growth laid ahead. This optimism also opened a window of opportunity sorely needed to pass a balanced majority-vote Budget without new taxes.

Because this increase in projected revenues wasn't grounded in the economic forecast of the time, the 2011-12 State Budget also set automatic cuts to state-funded programs, including child care, K-12 education, and community colleges, triggering reductions in state spending of billions of dollars if state revenues fall short.

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On Monday, February 27, 2012, Legislative Analyst Mac Taylor released an *Economic and Revenue Update* showing that the state of the economic recovery in California is mixed and tax revenues for the 2011-12 and 2012-13 fiscal years may be down by $6.5 billion compared with the January Governor's State Budget estimates.

As a result of mixed economic news and softened estimated tax payments received in December and January, the report's revised forecast of state revenues for the current and budget years is lackluster, as well. The Legislative Analyst forecasts that 2011-12 and 2012-13 revenues will fall $6.5 billion below the Governor's January forecast, and as much as $8.5 billion below forecast if the Facebook-related revenues are omitted. This assumes enactment of the Governor's tax initiative in November; although the Legislative Analyst's estimate of revenues from the initiative continues to be lower than the Administration's.

If the revenue forecast proves accurate, then the Legislature and the Governor will need to identify additional solutions-cuts and/or revenues-to bring the 2012-13 State Budget into balance. The Legislative Analyst notes that the net effect of lower revenues on the Budget problem will depend on the degree to which a changed revenue picture also changes the Proposition 98 minimum guarantee of funding for K-14 education. The Legislative Analyst's Office (LAO) has typically treated any decline in Proposition 98 as an immediate savings to the state, and so will net any Proposition 98 "solution" out of the estimated State Budget deficit remaining to be resolved. The report states that the LAO will be releasing updated estimates of Proposition 98 in the coming weeks. (SSC Fiscal Report 03/02/12).

Since state revenues are significantly behind projections, the anticipated trigger reductions are being enacted. The trigger cuts are reflected in the First Principal Apportionment certification and are scheduled to be taken out of the school districts' payments at 20% per month from February through June. The trigger reductions will impact MetroED's participating districts, but it appears will not directly impact MetroED's 2011-12 budget. There will be an impact, however, on the MetroED's cash flow issues which we expect to be compounded by any new state adjustments. The unprecedented levels of cuts to our schools and students have been harmful throughout California. In the last three years, funding for schools has been cut by more than $18 billion, or about $3,000 per student. These cuts are in addition to the loss of $7 billion of one-time federal funding. Students in school today now face larger class sizes; fewer support services, no school transportation, services, fewer courses, and shorter school years.

Governor Jerry Brown's ballot initiative to ask California voters to increase taxes on themselves to generate more funds for schools and public safety, which was released on December 5, 2011, is currently in the signature collecting stage. More than 807,000 validated signatures are required by June 18, 2012 in order for the initiated to be placed on the November General Election ballot. The Governor's initiative would raise the statewide sales tax a half-cent to 7.75% and impose higher income taxes starting with individuals making at least $250,000 a year. The plan would raise $7 billion annually for five years to shrink the state's deficit problem and will be held into the "Education Protection Account." Of the total, 11% of the revenues would be earmarked for community colleges and 89% would be provided to K-12 education, with those new dollars distributed on a per average daily attendance basis. The state's budget analyst estimated last month that California must tackle a $12.8 billion deficit next year. Governor Jerry Brown promised during his 2010 campaign that he would agree only to higher taxes with voters' approval. The goal is to get the initiative on the November 2012 ballot. Voters have not passed a statewide tax increase since 2004 when they approved a one-percentage point income tax hike on millionaires to pay for mental health services. However, the recent state-wide polls suggest that voters may be willing to support a tax hike which benefits schools.

A Multi-year Approach is Needed:
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.

The governor's school finance reform proposal includes a Weighted Student Pupil Funding Formula (WPF) which would end career technical and adult education in California. This proposal creates no short-term budget savings, makes no positive step toward relieving the state's on-going budget deficit and would enact new, comprehensive policy changes at a time when county offices of education, districts and programs are standing at the brink of insolvency.

The governor's preface on the education section of the 2012-13 budget proposal states, "The Budget dramatically increases flexibility and local control by consolidating the vast majority of categorical programs (excluding federally required programs such as special education) with revenue limit apportionments into a single stream of funding for schools on a permanent basis."

The budget proposal would codify permanently the categorical program flexibility provisions that are due to end in fiscal year 2014-15. The WPF proposes to provide K-12 education funding equally to all districts, and add funding to address the needs of low income and English learner students. Inclusion of ROCP and Adult Education funding in the formula will cause a loss of distinction and lead to the dismantling of these high quality programs.

The Funding Model for ROCP and Adult Education

For 2011-12, funding for Regional Occupational Centers/Programs (ROCPs) and Adult Education will 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.

If the Governor's Weighted Pupil Funding Formula (WPF) is implemented as it is currently proposed, the funding for ROCPs and Adult Education will dissolve. In the meantime, the current funding is based on the fixed grant method for 2011-12 and the next three years.

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 for public education are being increasingly deferred, now extending across budget years. MetroED has taken steps to address the deferral issue by increasing the district reserve level from 10 (ten) percent to 15 (fifteen) percent at its November, 2010 meeting. However, the extent of these deferrals is severe, totaling 30% at year end, and the district will need to use its Capital Outlay Proposition 1D match reserves as well to help cover the cash shortfalls.

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 $1,529,906 in the General Fund and $977,938 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 and projected two years to off-set the declining revenues from the state.

Employee Salaries and Benefits

The 2011-12 budget, and two projected years include step, projected 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. Bargaining with the District's three units for 2011-12 is in the early stages. No salary increases for COLA for 2011-12 and the two subsequent years is included in the multi-year projections.

2nd 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 2nd Interim 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:

- 2008-09 Actuals
- 2009-10 Actuals
- 2010-11 Unaudited Actuals
- 2011-12 Second Interim
- 2012-13 Projected
- 2013-14 Projected

Budget Presentation

Presentation of the Second 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	2011-12	2012-13	2013-14
ROCP Revenue Limit COLA	0.00%	0.00%	2.40%
Revenue Limit Reduction	0.00%	0.00%	0.00%
Total ROCP Revenue Limit	$2,769.89	$2,769.96	$2,769.96
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	$14,370	$15,089	$15,843
Salary Increase COLA	0.00%	0.00%	0.00%

General Fund - Revenues: Major adjustment from the first interim budget approved by the Board on December 14, 2011 is an increase in General Fund Other Local Revenue of $36,569. This increase includes the updated CCOC evening class fee projections, an increase of $39,351. However, this also includes a decrease of $5,520 of projected interest income.

General Fund - Expenditures: There are no major changes from the first interim budget updates approved by the Board on December 14, 2011. However, some that were necessary are: (1) the reduced health insurance budget due to the employees who elected not to participate in the PERS program; (2) the reduction of the internal catering budget, (3) inclusion of the budget savings due to the accountant hiring delay; and (4) the reduction of amount budgeted for outside contracts.

See Budget Adjustments-2nd Interim Report for more detail of changes.

General Fund - Other Financing Sources/Uses:
A transfer in from Fund 140, Deferred Maintenance, of $168,385 is budgeted in order to reimburse the general fund which provided an advance of deferred maintenance hardship funding while receipt of state funding was pending. The District's match for the deferred maintenance program is included for transfer out of $166,466. A transfer out in the amount of $62,314 to Adult Ed in support of the LEA Credential Program is budgeted as well as $405,000 for Fund 400, Capital Outlay. The total budgeted transfers in is $175,587 and transfers out equal $633,780

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 decrease in the total expenditures.

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 2011-12. 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 2nd Interim Budget and two projected years:

GENERAL FUND – OPERATIONS	2011-2012	2012-13	2013-14
Total Revenues	14,530,602	13,516,251	13,786,886
Total Expenditures	14,424,952	14,251,582	14,478,988
Net Revenues/Expenses	105,650	(735,331)	(692,103)
Other Sources (Uses)	(458,193)	(54,779)	(56,266)
Change to Fund Balance	**(352,543)**	**(790,110)**	**(748,369)**

The deficit spending for 2011-2012 exceeded the standard largely due to the transfer of $405,000 which was made to the Special Reserve Fund for Capital Outlay, Fund 400. This is one time transfer to fund the construction costs of the classroom so that a new CCOC program can be offered effective 2013-2014. The District has made conscious efforts in reducing the deficit spending.

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 2nd Interim Budget and two projected years:

GENERAL FUND – FUND BALANCE	2011-2012	2012-13	2013-14
Reserved, Restricted, & Assigned:			
Revolving Fund, Prepaid	30,757	30,757	30,757
General Reserve (5%)	752,937	724,097	735,723
Legally Restricted Balances	0	0	0
Contingency for State Deficits	1,529,906	826,315	43,069
Other Designated/Assigned	248,320	248,320	248,320
Reserve-Economic Uncertainty (10%)	1,505,873	1,448,195	1,471,446
Total Fund Balance	**4,067,793**	**3,277,684**	**2,529,315**

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 2011-12 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 decided to reduce 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 $4,286,111 projected for 2011-12. MetroED administers the Adult Education programs 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 011 ASSUMPTIONS	2011-12	2012-13	2013-14
Adult Ed Revenue Limit COLA	0.00%	0.00%	2.40%
Total Adult Ed Revenue Limit	2,274.82	2,274.82	2,329,42
ADA CAP Growth	0.00%	0.00%	0.00%
Total ADA CAP-San Jose USD	2,301.39	2,301.39	2,301.39
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	$14.370	$15,089	$15,843
Salary Increase COLA	0.00%	0.00%	0.00%

Adult Ed Fund - Revenues: There have been no major changes in Adult Ed revenues since the first interim was certified on December 14, 2011.

Adult Ed Fund - Expenditures: Major changes since the certification of the first interim approved by the Board on December 14, 2011 are: (1) correction of overstated Curriculum Specialist position budget; (2) a reduction of M&O salary budget to align with updated projected actuals; (3) the reduced health insurance budget due to the employees who elected not to participate in the PERS program; and (4) reduction in transportation equipment budget. *See Budget Adjustments, 2nd Interim Report, for detail of the adjustments.*

Adult Ed Fund - Other Financing Sources/Uses:
Additional general fund support in the amount of $62,314 is included for LEA program.

Adult Ed Fund - Fund Balance:
The fund balance is projected at $1,790,529 which is an increased of $245,427 over the First Interim projection mainly due to the updated salary and benefit cost projections. 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	**2011-12**	**2012-2013**	**2013-14**
Total Revenues	4,286,111	4,033,484	3,877,083
Total Expenditures	5,199,288	4,864,729	4,286,698
Net Revenues/Expenses	(913,177)	(831,245)	(409,614)
Other Sources (Uses)	62,314	63,900	65,010
Change to Fund Balance	**(850,863)**	**(767,345)**	**(344,604)**

Multi-Year Projection Fund Balances: The following chart details the projected fund balances for the 2nd 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	**2011-12**	**2012-2013**	**2013-14**
RESERVED, RESTRICTED, & ASSIGNED:			
Reserve, Restricted, & Assigned			
Reserve for Prepaid	32,698	32,698	32,698
General Reserve (5%)	259,964	243,236	214,335
Contingency for State Deficits	977,938	260,777	2,877
Reserve-Economic Uncertainty (10%)	519,929	486,473	428,670
Total Fund Balance	**1,790,529**	**1,023,184**	**678,580**

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 term 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: The State revenue was reduced by $166,466 because the transfer from the General Fund for the District's match was inadvertently classified as State revenue.

Deferred Maintenance Fund–Expenditures/Transfers Out: The transfer out of $168,385 is budgeted in order to reimburse the general fund which provided an advance of deferred maintenance hardship funding while receipt of state funding was pending.

Deferred Maintenance Fund 140	**2011-12 Budget**
Source of Funds:	
State Regular DM Funding	334,851
District Match Contribution	166,466
Interest	8,795
Total Sources	**510,112**

Deferred Maintenance Fund	**2011-12 Budget**
Uses of Funds:	
Transfer to Gen Fund: repay hardship grant	168,385
Electrical Projects	50,000
Floor Covering	50,000
HVAC (Gas line replacement)	50,000
Painting Projects	111,105
Paving Projects	250,000
Plumbing Projects	50,000
Building 6 Upgrades	100,860
Other Miscellaneous Projects	66,000
Total Expenditures	**896,350**
Fund Balance:	
Beginning fund Balance	***1,244,472***
Ending Fund Balance	***858,234***

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 $5,674 reduced by $4,632 from the First Interim projection of $10,306.

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

Special Reserve Fund - Other Financing Sources/Uses: There are no changes.

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: Revenue projection updates resulted in an increase of $3,631.

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 adjusted to match the current construction timelines.

ASSET MANAGEMENT FUND 210	**2011-12 Budget**
Source of Funds:	
Lease Revenue	184,788
Interest Income	9,468
Total Revenues	**194,256**

ASSET MANAGEMENT FUND	**2011-12 Budget**
Uses of Funds:	
Prop 1D – Bldg 200 Equipment (Res: 9508)	18,735
Prop 1D – Bldg 300 Equipment (Res: 9509)	9,916
Prop 1D – Bldg 800 Equipment (Res: 9510)	14,316
Prop 1D – Bldg 100 Equipment (Res: 9511)	705
Prop 1D – Bldg 500/600 Equip (Res: 9515)	182,540
Prop 1D – Bldg 700 Equip (Res: 9516)	199,250
3% District Management Fee	7,202
Total Expenditures and Transfer Out	**432,664**
Beginning Fund Balance	**1,202,842**
Ending Fund Balance	**964,434**

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 earnings of $ 40,362 and the State Proposition 1D grant in the amount of $222,258 for the last project 9516, Manufacturing Equipment is included.

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	2011-12 Budget
Revenues:	
Interest Earnings	40,362
Prop 1D Grants	222,258
Total Sources Available	**262,620**
Expenditures:	
Prop 1D: Bldg 300 (40360-00-01, Res: 9501)	21,166
Prop 1D: Bldg 800 (40360-00-02, Res: 9502)	314,955
Prop 1D: Bldg 200 (40360-00-03, Res: 9503)	238,091
Prop 1D: Bldg 100 (40360-00-04, Res: 9504)	104,943
Prop 1D: Bldg 100 (40360-00-05, Res: 9505)	25,000
Prop 1D: Bldg 200 (40360-00-06, Res: 9506)	538,468
Prop 1D: Bldg 600 (40360-00-07, Res: 9507)	1,319,293
Prop 1D: Bldg 200 (40360-00-08, Res:9508)	18,735
Prop 1D: Bldg 300 (40360-00-09, Res:9509)	10,084
Prop 1D: Bldg 200 (40360-00-10, Res: 9510)	14,315
Prop 1D: Bldg 100 (40360-00-11, Res: 9511)	704
Prop 1D: Bldg 700 (40360-00-12, Res: 9512)	415,905
Prop 1D: Bldg 300 (40360-00-13, Res: 9513)	38,293
Prop 1D: Bldg 100 (40360-00-14, Res: 9514)	30,493
Prop 1D: Bldg 500/600 (40360-00-15, Res: 9515)	182,540
Prop 1D: Bldg 700 (40360-00-16, Res: 9516)	199,438
Total Expenditures	**3,472,423**
Fund Balance:	
Beginning Fund Balance	**5,900,863**
Ending Fund Balance	**2,691,060**

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: $405,000 is transferred in from the General Fund to construct a new classroom in Building 100.

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

The following chart summarizes the Capital Outlay Fund budget for 2011-2012:

CAPITAL OUTLAY FUND	**CCOC**	**MAEP**
Sources of Funds:		
Interest Earnings	83,618	680
Transfers In – Capital Outlay	405,000	-0-
Total Sources Available	**488,618**	**680**
Uses of Funds:		
Prop 1D: Bldg 300 (40360-00-01, Res: 9501)	21,166	
Prop 1D: Bldg 800 (40360-00-02, Res: 9502)	314,955	
Prop 1D: Bldg 200 (40360-00-03, Res: 9503)	238,090	
Prop 1D: Bldg 100 (40360-00-04, Res: 9504)	104,943	
Prop 1D: Bldg 100 (40360-00-05, Res: 9505)	25,000	
Prop 1D: Bldg 200 (40360-00-06, Res: 9506)	538,469	
Prop 1D: Bldg 600 (40360-00-07, Res: 9507)	1,319,293	
Prop 1D: Bldg 700 (40360-00-12, Res: 9512)	424,637	
Prop 1D: Bldg 300 (40360-00-13, Res: 9513)	34,071	
Prop 1D: Bldg 100 (40360-00-14, Res: 9514)	30,843	
Gasline Project	213,000	
A New Classroom Construction @Bldg 100	35,000	
QZAB Administrative Fee	1,500	

CAPITAL OUTLAY FUND	CCOC	MAEP
Architectural Fees- General	31,000	
MAEP Facilities Upgrade		29,000
MAEP Annex Construction		423,998
Debt Service	19,500	-0-
Total Expenditures	**3,351,467**	**452,998**
Net Change to Fund Balance	**(2,862,849)**	**(452,318)**
Beginning Fund Balance	**6,908,737**	**484,011**
Ending Fund Balance	**4,045,888**	**31,693**

Capital Outlay Fund - Ending Fund Balance: Included in the Fund 400 fund balance for the General Fund is $790,761 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.

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 California's financial recovery will be slow at best and realistically nearly nonexistent. MetroED programs are categorically funded by the state and remain under flexibility scheduled though June of 2015. However, if the Governor's Weighted Student Pupil Funding Formula (WPF) becomes a reality, MetroED's as well as other ROCPs and Adult Education Programs would become unfunded as these funds would be undesignated and blended in with funds for general educational purposes. Districts throughout the state would need to utilize these funds to file the gap of previous budget reductions and general population needs or to soften the effects of the General Fund contributions to Special Education. In the meantime, reduced block funding remains 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.