

Metropolitan Education District
2006-07 Unaudited Actual Financial Report
September 12, 2007

Executive Summary

Presentation of the Unaudited Actual Financial Report

The District is presenting the year-end Unaudited Actual Financial Report in a format similar to the Interim Financial Reports in order to provide the Governing Board, District employees and public with a more relevant and user-friendly document. We have included in this Executive Summary, "Unaudited Actuals at a Glance" and a Comparative: Unaudited Actuals to Estimated, with footnoted explanations of the differences. The following is a summary of the year-end activity for each fund.

Reserves for Cash Flow

Unlike K-12 education, ROC/P and Adult Education programs do not receive state advance apportionment funding at the beginning of the fiscal year. Funds are apportioned ONLY after the state budget is signed into law, resulting in the district having to rely on temporary reserves to cover vendor payments and employee payrolls. During 2004-05, the Governing Board established policy to set up an overall 10% reserve, composed of a 4% General Reserve and a 6% Reserve for Economic Uncertainty, to provide sufficient cash for vendor payments and employee wages for a 60-day period. In the current 2007-08 fiscal year, the adoption of the state budget was delayed for 55 days. Because of these reserves, the District is able to maintain its normal operations during this period.

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 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

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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 directed that reserves be established for both the General and Adult Education funds sufficient to pay the PERS Reduction recapture retroactive to 2003-04. The General Fund PERS reserve is held in the District Fund 170 "Special Reserve." The Adult Education Fund reserve is designated as part of the fund balance for the Adult Education Fund 110.

Fund 010: General Fund (CCOC/P)

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

Fund 010 Revenues: Final General Fund revenue exceeded the Estimated Actuals by \$618,860. Primarily it includes the following items:

- \$321,838 current year ROC/P growth ADA (93.4 ADA) funding that was not expected in the Estimated Actuals, due to the possibility that all the ADA will be shifted to Los Angeles Unified School District. However, in the state P2 certification released in July, it appears that we will receive the growth ADA allocation for 06-07 year. Recently, we have received unofficial information that the 2006-07 growth ADA will be shifted to LA USD in 2007-08. If this is true, the adjustment will be reflected in the state P annual certification, which will be released in Feb. 2008.
- \$29,373 additional for prior year excess local property tax and excess growth ADA received in the state P2 certification.
- \$98,993 for the additional 20,915 hours earned by the Cosmetology apprenticeship program.
- \$90,099 lottery revenue pass-through from Campbell Union High School District that was not included in the Estimated Actuals.

Fund 010 Expenditures: Final expenditures were \$501,435 less than estimated. The savings were in numerous categories. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes.

Fund 010 Other Financing Sources/Uses: Transfers out to the Capital Outlay Fund 400 increased by \$478,211, due to the unexpected additional revenues and savings from expenditures. It will help the District for future CCOC facility modernization projects, or to offset a transfer of the 2006-07 ADA growth to L.A. Unified, if that occurs.

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Fund 010 Fund Balance: For the year, the net increase in fund balance was \$598,126. See following chart for detail of the reserves and designations:

GENERAL FUND – FUND BALANCE	2006-2007
Reserved & Designated:	
Revolving Fund, Prepaid Expenses	\$ 40,597
General Reserve (4%)	\$ 704,475
Economic Uncertainty (6%)	\$ 1,056,712
Legally Restricted Balances	\$ 46,335
Campus Security Projects	\$ 130,000
Contingency for State Deficit	\$ 200,000
CCOC Sewer Line Project	\$ 250,000
WASC Project and CTE Reforms	\$ 80,000
Year End Misc. Purchases	\$ 44,700
Total Reserves	\$ 2,552,819
Undesignated Fund Balance	\$ 70,217
Total Fund Balance	\$ 2,623,036

The Legally Restricted Balances is composed of unspent restricted funds for Proposition 20 lottery and a 2006-07 one-time CTE equipment grant. The designation for the Campus Security Projects is for the unfinished CCOC camera security project. The Contingency for State Deficit is in response to reports of state July revenue collections at levels considerably less than estimated for the 2007-08 state budget. Designation for the CCOC Sewer Line Project is a backstop should the state disapprove the District's application for a Deferred Maintenance Extreme Hardship Grant to replace the corroded sewer lines on the CCOC campus. Designation for WASC Project & CTE Reforms is to provide funds to cover the WASC self-study that is required in 2007-08 and additional professional development that will be needed to help the district implement state CTE reforms. Designation for Year End Miscellaneous Purchases is to cover purchase orders issued near year end that had not been filled as of the year-end close.

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

Fund 110: Adult Education

Fund 110 Purpose: The Adult Education Fund is used to account separately for federal, state and local revenues for Adult Education programs. MetroED administers the Adult Education programs for San Jose Unified School District

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and Campbell Union High School District under a Master Business Relationship Agreement.

Fund 110 Revenues: Final Adult Education Fund revenue exceeded the Estimated Actuals by \$2,172. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes.

Fund 110 Expenditures: Final expenditures were \$98,308 less than estimated. The savings were in numerous categories, but primarily savings in Services and Other Operations account. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes

Fund 110 Other Financing Sources/Uses: There are no changes in this category.

Fund 110 Fund Balance: For the year, the net increase in fund balance was \$294,728. See following chart for detail reserves and designations

ADULT ED FUND – FUND BALANCE	2006-2007
Reserved & Designated:	
General Reserve (4%)	\$ 432,978
Economic Uncertainty (6%)	\$ 649,467
Legally Restricted Balances	\$ 38,542
PERS Recapture Liability	\$ 348,071
WASC and Staff Development	\$ 45,000
Ellis Server Upgrade	\$ 40,000
Total Reserves	\$ 1,554,058
Undesignated Fund Balance	\$ 63,028
Total Fund Balance	\$ 1,617,086

The Legally Restricted Balances is composed of a restricted one-time site block grant that is carried over to 2007-08. The Designation for PERS Recapture Liability is in accordance with Board policy (see explanation on page #1). Designation for WASC Project & Staff Development to provide funds to cover the WASC self-study that is required in 2007-08, and related staff development. Designation for the Ellis Server Upgrade is to cover the cost of the upgrade that was budgeted in 2005-06, but not completed at year end.

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)

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under the 5-year Deferred Maintenance plan approved by the Office of Public School Construction (OPSC).

Fund 140 Revenues: Final Deferred Maintenance Fund revenue exceeded the Estimated Actuals by \$6,851. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes.

Fund 140 Expenditures: Final expenditures exceed the Estimated by \$43,528. This was due to the payment for the paving project that was originally planned to start in the 2007-08 fiscal year. Final expenditures for the year were in the following categories:

Expenditures:	2006-2007
Transformer Replacement	\$ 466,440
Floor Covering	\$ 3,935
Painting Projects	\$ 103,664
Paving Projects	\$ 85,483
Plumbing Projects	\$ 27,101
Total Expenditures	\$ 686,623

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

Fund 140 Fund Balance: For the year, the ending fund balance was \$460,472. All the balances were designated for the projects identified in the 5-year Deferred Maintenance plan.

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

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

Fund 170 Revenues: Final revenue is \$2,209 less than the Estimated. See *the Comparative: Unaudited Actuals to Estimated* for detail of changes.

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

Fund 170 Fund Balance: For the year, the ending fund balance was \$467,866. Within that, \$378,828 was designated for PERS Recapture Liability, and \$89,038 for the Mandated Costs reimbursement.

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Fund 210: Building Fund-Asset Management

Fund 210 Purpose: This is otherwise known as the CCOC Asset Management Fund. This fund exists primarily to account separately for proceeds from the rentals and leases of real property specifically authorized for deposit into the fund by the Governing Board. Revenues include lease payments from the Capital Auto Mall LLP and interest earnings. Expenditures are allowed only for new programs, upgrading of existing programs and necessary facility upgrades as approved by the Governing Board.

Fund 210 Revenues: Final revenue exceed the Estimated by \$705 for the interest revenue.

Fund 210 Expenditures: Final expenditures were \$4,009 less than the Estimated. For the year, total expenditures were as follows, by program and class:

<i>Expenditures:</i>	2006-07
Baking and Catering	\$ 41,408
Probation & Legal Careers	\$ 7,259
Veterinary Assistant	\$ 74,426
Bldg. 700 Renovations	\$ 148,497
Health & Safety	\$ 17,650
3% District Management Fee	\$ 10,547
<i>Total Expenditures</i>	\$ 299,787

Fund 210 Fund Balance: For the year, the ending fund balance was \$536,234. Board policy requires a minimum reserve of \$250,000 in the Asset Management Fund.

Fund 400: Special Reserve Fund for Capital Outlay Projects

Fund 400 Purpose: This Capital Outlay Fund exists to provide for accumulation of monies for capital outlay purposes. The only sources of revenue for this fund are interest earnings and transfers from the ROC/P and Adult Education Funds. Monies in this fund are kept separate in their own Resource codes. Amounts are appropriated for expenditures as projects are planned and executed.

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Fund 400 Revenues, Expenditures and Other Financing Sources/Uses: The following chart summarizes the Capital Outlay Fund activity for 2006-07:

CAPITAL OUTLAY FUND	CCOC	ADULT ED SAN JOSE	ADULT ED CAMPBELL
Revenues:			
Interest Earnings	\$ 179,727	\$ 62,195	\$ 32,153
Transfers In – Debt Service	\$ 171,601	\$ 0	\$ 0
Transfers In – Capital Outlay	\$ 1,930,524	\$ 0	\$ 0
Total Sources Available	\$ 2,281,851	\$ 62,195	\$ 32,153
Expenditures:			
Bldg 700 Renovation Project	\$ 1,309,014	\$ 0	\$ 0
Transformer Replacement Project	\$ 20,012	\$ 0	\$ 0
Debt Service – Capital Lease	\$ 171,600	\$ 0	\$ 0
Debt Service – QZAB Bond	\$ 19,501	\$ 0	\$ 0
Transfer Out- Adult Ed Fund	\$ 0	\$ 23,271	\$ 7,537
Total Expenditures	\$ 1,520,127	\$ 23,271	\$ 7,537
Beginning Fund Balance	\$ 4,602,759	\$ 1,363,083	\$ 742,766
Ending Fund Balance	\$ 5,364,483	\$ 1,402,007	\$ 767,382