Metropolitan Education District

County of Santa Clara
San Jose, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2015

K·COE ISOM

Metropolitan Education District
TABLE OF CONTENTS
June 30, 2015

	Page Number
Independent Auditors' Report	1
FINANCIAL SECTION	
Required Supplementary Information	
Management's Discussion and Analysis	6
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Balance Sheet – Governmental Funds	18
Reconciliation of Governmental Fund Balances to Government-Wide Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of Net Change in Fund Balances to Change in Net Position	22
Statement of Fiduciary Net Position – Fiduciary Funds	23
Notes to the Financial Statements	24
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	56
Budgetary Comparison Schedule – Adult Education Fund	57
Notes to the Budgetary Comparison Schedules	58
Schedule of Funding Progress for Other Postemployment Benefits	59
Schedule of District's Proportionate Share of the Net Pension Liability – California State Teachers' Retirement System	60
Schedule of District's Contributions – California State Teachers' Retirement System	61
Schedule of District's Proportionate Share of the Net Pension Liability – California Public Employees' Retirement System	62
Schedule of District's Contributions – California Public Employees' Retirement System	63
Note to the Required Supplementary Information	64
OTHER SUPPLEMENTARY INFORMATION SECTION	
Local Educational Agency Organization Structure	66
Schedule of Financial Trends and Analysis	67
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	68
Schedule of Expenditures of Federal Awards	69
Note to the Other Supplementary Information	70

	Page Number
OTHER REPORTS SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	72
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	74
Independent Auditors' Report on State Compliance	76
FINDINGS AND QUESTIONED COSTS SECTION	
Schedule of Findings and Questioned Costs	79
Corrective Action Plan	81
Summary Schedule of Prior Audit Findings	82

K·COE ISOM

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Metropolitan Education District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metropolitan Education District (the District) as of and for the year ended June 30, 2015; and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITORS' REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2015; and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standards

As discussed in note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the fiscal year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison schedule(s), the Schedule of Funding Progress for Other Postemployment Benefits, and the required supplementary information listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information on pages 66 to 68 and the schedule of expenditures of federal awards, as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITORS' REPORT
(Continued)

Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 67 to 69 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Local Educational Agency Organization Structure has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KCoe Isom, LLP

December 9, 2015
Chico, California

FINANCIAL SECTION

Required Supplementary Information

INTRODUCTION

An overview of the Metropolitan Education District's (the District) financial activities for the fiscal year ended June 30, 2015, is provided in this discussion and analysis of the District's financial performance. This management's discussion and analysis should be read in conjunction with the District's financial statements (including notes and supplementary information).

As discussed in note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the fiscal year ended June 30, 2015. The summarized comparative information presented in this management's discussion and analysis for the year ended June 30, 2014, has not been restated to reflect pension expense accounting as required by GASB Statement No. 68, as amended by GASB Statement No. 71. Information was not available for such restatement. Therefore, certain accounts fluctuate significantly between fiscal years 2013-14 and 2014-15 due to information for the two years not being comparable.

FINANCIAL HIGHLIGHTS

Overall revenues in all funds were $18,795,972. Overall revenues exceeded expenses by $437,642.

Total net position in governmental funds was $33,747,513, an increase of 1.31% from the previous year. The General Fund reported a total fund balance of $7,920,660.

The District decreased its long-term debt from $15,583,568 in 2013-14 to $12,407,072 in 2014-15. This represents a 20.4% decrease in long-term debt overall.

USING THIS ANNUAL REPORT

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. Combined, these three parts provide a comprehensive overview of the District. The basic financial statements include two kinds of financial statements that present different views of the District:

- The first two financial statements are *government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining financial statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide financial statements. The District maintains governmental funds and fiduciary funds as follows:
    - *Governmental Funds*: Financial statements provide information on how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
    - *Fiduciary Funds*: Financial statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Government-Wide Financial Statements

The government-wide financial statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets owned less the liabilities owed. The statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The two financial statements report the District's net position and how it has changed.

Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The statement of net position and the statement of activities divide the District into two kinds of activities:

> *Governmental Activities*: Represent the basic services provided by the District, such as regular and special education, administration, and transportation.
>
> *Business-Type Activities*: Represent services for which the District charges fees to help cover the cost of certain services beyond the scope of normal district operations. The District does not have any of these types of activities at this time.

Fund Financial Statements

More detailed information about the District's most significant funds – not the District as a whole – is provided in the fund financial statements. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by bond covenants and by state law.
- Other funds are established by the District to control and manage money for particular purposes (such as repaying its long-term debts). Other funds may also show proper usage of certain revenues (such as federal grants).

The District has two types of funds:

Governmental Funds

Most of the District's basic services are included in governmental funds, which generally focus on:

- How cash and other financial assets can readily be converted to cash flow (in and out).
- The balances left at year end that are available for spending.

A detailed short-term view is provided by the governmental fund financial statements. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided at the bottom of the governmental fund financial statements that explains the differences (or relationships) between them.

Fiduciary Funds

For assets that belong to others, such as the student activities funds, the District acts as the trustee, or fiduciary. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. A separate statement of fiduciary net position reports the District's fiduciary activities. These activities are excluded from the government-wide financial statements, as the assets cannot be used by the District to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

As shown in the following table, the District's net position as of June 30, 2015, was $33,747,513. Of this amount a negative $2,497,139 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the Board of Trustees' ability to use the net position for day-to-day operations. All District net position is the result of governmental activities.

June 30	Governmental Activities 2014		Governmental Activities 2015	Percentage Change 2014-15
ASSETS				
Cash and investments	$ 7,633,760		$ 10,570,601	38.5%
Receivables	31,432		81,816	160.3%
Due from other governments	4,062,179		1,981,626	-51.2%
Prepaid expenses	30,293		48,613	60.5%
Restricted cash and investments	851,901		873,309	2.5%
Capital assets not depreciated	16,151,750		9,683,028	-40.0%
Capital assets - net of accumulated depreciation	19,870,333		25,468,363	28.2%
TOTAL ASSETS	48,631,648		48,707,356	0.2%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources for pensions	1,013,729	*	1,086,732	7.2%
LIABILITIES				
Accounts payable and other current liabilities	395,491		768,040	94.2%
Due to other governments	346,937		58,679	-83.1%
Advances from grantors	9,510		28,000	194.4%
Long-term obligations:				
Due within one year	228,334		228,334	0.0%
Due beyond one year	15,355,234	*	12,178,738	-20.7%
TOTAL LIABILITIES	16,335,506	*	13,261,791	-18.8%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources for pensions	-		2,784,784	N/A
NET POSITION				
Net investment in capital assets	35,022,083		34,151,391	-2.5%
Restricted for capital projects	1,941,283		2,042,530	5.2%
Restricted for educational programs	35,018		50,731	44.9%
Unrestricted	(3,688,513)	*	(2,497,139)	32.3%
TOTAL NET POSITION	$ 33,309,871	*	$ 33,747,513	1.31%

** As restated for implementation of GASB Statement No. 68, as amended by GASB Statement No. 71.*

CHANGES IN NET POSITION

The following table summarizes the changes in net position for the District.

Total revenues were $18,795,972. Interagency revenue accounted for most of the District's revenue, representing approximately 78.6% of all revenue. Another 8.6% came from operating grants and contributions, and the remaining 12.8% came from interest and investment earnings, other revenue, and federal and state aid for specific programs and projects.

The total cost of all programs and services decreased 12.5% to $18,358,330. Revenues exceeded the District's expenses for the year by $437,642. The District's expenses are primarily related to educating and caring for students (79.7%). Maintenance and operations account for 12.9% of the total costs. The remaining 7.4% is for interest and other expenses.

	Governmental Activities		Percentage Change
June 30	2014	2015	2014-15
REVENUES			
Program Revenues			
Operating grants and contributions	$ 1,336,833	$ 1,617,004	21.0%
General Revenues			
Federal and state aid not restricted	13,119,432	778,484	-94.1%
Interest and investment earnings	82,017	89,699	9.4%
Interagency revenues	-	14,767,793	N/A
Miscellaneous	4,490,579	1,542,992	-65.6%
TOTAL REVENUES	19,028,861	18,795,972	-1.2%
EXPENSES			
Instruction	7,835,130	7,011,426	-10.5%
Instruction-related services	7,717,054	6,782,495	-12.1%
Pupil services	937,090	842,422	-10.1%
Plant services	2,573,472	2,367,222	-8.0%
Interest on long-term debt	19,500	19,500	0.0%
Other	1,903,060	1,335,265	-29.8%
TOTAL EXPENSES	20,985,306	18,358,330	-12.5%
Changes in Net Position	$ (1,956,445)	$ 437,642	122.4%

The District's total expenses were $18,358,330; however, the net cost for these activities was $16,741,326 after costs were paid by those who benefited from the programs and amounts paid by other governments and organizations who subsidized certain programs with grants and contributions.

	Total Cost of Services		Percentage Change
June 30	2014	2015	2014-15
Instruction	$ 7,835,130	$ 7,011,426	-10.5%
Instruction-related services	7,717,054	6,782,495	-12.1%
Pupil services	937,090	842,422	-10.1%
Plant services	2,573,472	2,367,222	-8.0%
Interest on long-term debt	19,500	19,500	0.0%
Other outgo	1,903,060	1,335,265	-29.8%
Totals	$ 20,985,306	$ 18,358,330	-12.5%

	Net Cost of Services		Percentage Change
June 30	2014	2015	2014-15
Instruction	$ 7,317,743	$ 6,271,357	14.3%
Instruction-related services	6,923,996	5,907,350	-14.7%
Pupil services	935,239	842,422	-9.9%
Plant services	2,573,472	2,365,995	-8.1%
Community service	-	(563)	N/A
Interest on long-term debt	19,500	19,500	0.0%
Other outgo	1,878,523	1,335,265	-28.9%
Totals	$ 19,648,473	$ 16,741,326	-14.8%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The District's governmental funds reported a combined fund balance of $12,701,246, an increase of $843,619 from the previous year. Following is a summary of the District's fund balances.

June 30	Fund Balance 2014	Fund Balance 2015	Increase (Decrease)
General	$ 6,686,824	$ 7,920,660	$ 1,233,836
Adult Education	1,290,805	1,057,802	(233,003)
Deferred Maintenance	500,113	274,711	(225,402)
Building	1,258,267	1,413,307	155,040
Special Reserve Capital Projects	1,438,602	1,405,543	(33,059)
County School Facilities	683,016	629,223	(53,793)
Totals	$ 11,857,627	$ 12,701,246	$ 843,619

The increase in the General Fund is due primarily to an increase in state revenue and a decrease in expenditures. Expenditures in the General Fund were lower in some expenditure categories. The biggest savings were in salaries and benefits which totaled $770,784 and supplies which totaled $142,747.

The decrease in the Adult Education Fund is mainly due to a decrease in interfund transfers in.

The decrease in the Deferred Maintenance Fund is due to an increase in deferred maintenance projects and a decrease in state funding.

The increase in the Building Fund is due to income from the property lease.

General Fund Budgetary Highlights

During the course of the year, the District revises its budget as information is available which results in changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with the amounts actually paid and received for the General Fund is provided in our annual report as required supplementary information.

The District budgeted expenditures and other financing uses to exceed revenues and other financing sources by $554,011. However, actual revenues and other financing sources exceeded expenditures and other financing uses by $1,233,836. The significant budget amendments for the year typically fell into the following categories:

- Changes in supplies and services originally budgeted for, but did not materialize within, the 2014-15 fiscal year.
- Changes in personnel-driven expenditures, including salaries and benefits.
- Recognition of direct ROC/P funding from the California Department of Education (CDE).
- Adjustments to interfund transfer amounts and estimates of local revenues.

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The District invested $571,524 in capital assets including buildings, site improvements, and equipment. During the year, $58,552 was invested in construction in progress for school modernization.

	Governmental Activities		Percentage Change
June 30	2014	2015	2014-15
Land	$ 9,683,028	$ 9,683,028	0.0%
Buildings	31,218,088	38,258,056	22.6%
Site improvements	2,039,696	2,078,640	1.9%
Equipment	4,165,363	4,185,249	0.5%
Construction in progress	6,468,722	-	-100.0%
Total Capital Assets	$ 53,574,897	$ 54,204,973	1.2%

Long-Term Debt

At year end, the District had $12,407,072 in outstanding long-term debt. The change in long-term debt is due to the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71 which required the District to recognize its proportionate share of the net pension liability under CalSTRS and CalPERS as a cumulative effect of a change in accounting principles. Outstanding long-term debt decreased by 20.4% primarily due to the District making normally scheduled payments on its early retirement incentives. The District has no plans to incur any additional debt during 2015-16.

	Governmental Activities		Percentage Change
June 30	2014	2015	2014-15
Compensated absences	$ 188,525	$ 178,200	-5.5%
Net OPEB obligation	796,861	950,713	19.3%
Qualified Zone Academy Bonds	1,000,000	1,000,000	0.0%
Early retirement incentives	1,141,672	913,338	-20.0%
Net pension liability	12,456,510 *	9,364,821	-24.8%
Total Long-Term Debt	$ 15,583,568 *	$ 12,407,072	-20.4%

** As restated for implementation of GASB Statement No. 68, as amended by GASB Statement No. 71.*

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were being prepared and audited, the District was aware of the following circumstance that could significantly affect its financial health in the future:

- Cost of living and doing business continues to rise, but revenues remain flat.
- Due to the implementation of the Local Control Funding Formula (LCFF), funding is dependent upon JPA member districts' agreement to pass-through funds to the District to sustain programs and operations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For questions regarding this report or for additional financial information, please contact:

Marie dela Cruz
Business Office
Metropolitan Education District
760 Hillsdale Ave.
San Jose, CA 95136

Basic Financial Statements

Metropolitan Education District

STATEMENT OF NET POSITION

June 30, 2015	Governmental Activities
ASSETS	
Cash and investments	$ 10,570,601
Accounts receivable	81,816
Due from other governments	1,981,626
Prepaid expenses	48,613
Restricted cash and investments	873,309
Nondepreciated capital assets	9,683,028
Depreciated capital assets	44,521,945
Accumulated depreciation	(19,053,582)
TOTAL ASSETS	48,707,356
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for pensions	1,086,732
LIABILITIES	
Accounts payable and other current liabilities	768,040
Due to other governments	58,679
Advances from grantors	28,000
Long-term obligations:	
Due within one year	228,334
Due beyond one year	12,178,738
TOTAL LIABILITIES	13,261,791
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources for pensions	2,784,784
NET POSITION	
Net investment in capital assets	34,151,391
Restricted for capital projects	2,042,530
Restricted for educational programs	50,731
Unrestricted	(2,497,139)
TOTAL NET POSITION	$ 33,747,513

The accompanying notes are an integral part of these financial statements.

Metropolitan Education District
STATEMENT OF ACTIVITIES

Year Ended June 30, 2015	Expenses	Program Revenues - Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position - Governmental Activities
FUNCTIONS/PROGRAMS			
Primary Government			
Governmental activities:			
Instruction	$ 7,011,426	$ 740,069	$ (6,271,357)
Instruction-related services	6,782,495	875,145	(5,907,350)
Pupil services	842,422	-	(842,422)
Plant services	2,367,222	1,227	(2,365,995)
Community service	-	563	563
Other outgo	1,335,265	-	(1,335,265)
Interest on long-term debt	19,500	-	(19,500)
Total Governmental Activities	$ 18,358,330	$ 1,617,004	(16,741,326)
GENERAL REVENUES			
Federal and state aid not restricted to specific purposes			778,484
Unrestricted investment earnings			89,699
Interagency revenues			14,767,793
Miscellaneous			1,542,992
TOTAL GENERAL REVENUES			17,178,968
Change in Net Position			437,642
Net Position - as Previously Reported			44,752,652
Cumulative effect of change in accounting principles			(11,442,781)
Net Position - as Restated			33,309,871
Net Position - End of Year			$ 33,747,513

The accompanying notes are an integral part of these financial statements.

Metropolitan Education District

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2015	General Fund	Adult Education Fund	Building Fund	Special Reserve Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	$ 7,410,926	$ 511,062	$ 1,465,439	$ 532,378	$ 650,796	$ 10,570,601
Accounts receivable	65,605	12,321	2,039	731	1,120	81,816
Due from other governments	1,397,463	584,163	-	-	-	1,981,626
Due from other funds	-	47	-	-	270,744	270,791
Prepaid expenditures	26,152	22,461	-	-	-	48,613
Restricted cash and investments	-	-	-	873,309	-	873,309
TOTAL ASSETS	$ 8,900,146	$ 1,130,054	$ 1,467,478	$ 1,406,418	$ 922,660	$ 13,826,756
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and other current liabilities	$ 677,507	$ 70,932	$ -	$ 875	$ 18,726	$ 768,040
Due to other governments	3,188	1,320	54,171	-	-	58,679
Due to other funds	270,791	-	-	-	-	270,791
Advances from grantors	28,000	-	-	-	-	28,000
Total Liabilities	979,486	72,252	54,171	875	18,726	1,125,510
Fund Balances						
Nonspendable	46,152	22,461	-	-	-	68,613
Restricted	31,198	19,533	1,413,307	-	629,223	2,093,261
Committed	-	1,015,808	-	-	274,711	1,290,519
Assigned	6,060,464	-	-	1,405,543	-	7,466,007
Unassigned	1,782,846	-	-	-	-	1,782,846
Total Fund Balances	7,920,660	1,057,802	1,413,307	1,405,543	903,934	12,701,246
TOTAL LIABILITIES AND FUND BALANCES	$ 8,900,146	$ 1,130,054	$ 1,467,478	$ 1,406,418	$ 922,660	$ 13,826,756

The accompanying notes are an integral part of these financial statements.

Metropolitan Education District
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENT-WIDE NET POSITION

June 30, 2015

Total Fund Balances - Governmental Funds			$	12,701,246
Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources for governmental activities in the statement of net position are different from amounts reported in governmental funds because:				
Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.				
Capital assets at historical cost	$	54,204,973		
Accumulated depreciation		(19,053,582)		
Total Capital Assets - Net				35,151,391
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:				
Net pension liability		9,364,821		
Net OPEB obligation		950,713		
Compensated absences		178,200		
Early retirement incentives		913,338		
Qualified Zone Academy Bonds		1,000,000		
Total Long-Term Liabilities				(12,407,072)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net positon, deferred outflows and inflows of resources relating to pensions are reported:				
Deferred outflows of resources relating to pensions				1,086,732
Deferred inflows of resources relating to pensions				(2,784,784)
Total Net Position - Governmental Activities			$	33,747,513

The accompanying notes are an integral part of these financial statements.

Metropolitan Education District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2015	General Fund	Adult Education Fund	Building Fund	Special Reserve Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Other state revenue	$ 973,462	$ 68,664	$ -	$ -	$ -	$ 1,042,126
Federal revenue	14,135	488,833	-	-	-	502,968
Other local revenue	14,049,049	3,165,058	199,714	43,456	5,301	17,462,578
Total Revenues	15,036,646	3,722,555	199,714	43,456	5,301	19,007,672
Expenditures						
Current:						
Instruction	4,651,307	1,177,434	-	-	-	5,828,741
Instruction-related services	4,669,599	2,405,484	-	-	-	7,075,083
Pupil services	818,702	24,973	-	-	-	843,675
Plant services	2,074,341	347,457	-	-	3,765	2,425,563
Transfers between agencies	1,333,515	-	-	-	-	1,333,515
Other outgo	-	-	-	1,750	-	1,750
Debt service:						
Interest and other charges	-	-	-	19,500	-	19,500
Capital outlay	5,346	210	44,674	55,265	530,731	636,226
Total Expenditures	13,552,810	3,955,558	44,674	76,515	534,496	18,164,053
Excess (Deficiency) of Revenues Over Expenditures	$ 1,483,836	$ (233,003)	$ 155,040	$ (33,059)	$ (529,195)	$ 843,619

The accompanying notes are an integral part of these financial statements.

Metropolitan Education District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
(Continued)

Year Ended June 30, 2015	General Fund	Adult Education Fund	Building Fund	Special Reserve Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)						
Interfund transfers in	$ -	$ -	$ -	$ -	$ 250,000	$ 250,000
Interfund transfers out	(250,000)	-	-	-	-	(250,000)
Total Other Financing Sources (Uses)	(250,000)	-	-	-	250,000	-
Net Change in Fund Balances	1,233,836	(233,003)	155,040	(33,059)	(279,195)	843,619
Fund Balances - Beginning of Year	6,686,824	1,290,805	1,258,267	1,438,602	1,183,129	11,857,627
Fund Balances - End of Year	$ 7,920,660	$ 1,057,802	$ 1,413,307	$ 1,405,543	$ 903,934	$ 12,701,246

The accompanying notes are an integral part of these financial statements.

Metropolitan Education District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION

June 30, 2015

Total Net Change in Fund Balances - Governmental Funds		$	843,619
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:			
Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:			
Expenditures for capital outlay	$ 630,076		
Depreciation expense	(1,500,768)		
Net Capital Outlay			(870,692)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:			10,325
Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was:			379,908
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:			(153,852)
Other expenditures relating to prior periods: Certain expenditures recognized in governmental funds relate to prior periods. Typical examples, in addition to compensated absences and interest on long-term debt, are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations are first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods for early retirement incentives were:			228,334
Change in Net Position of Governmental Activities		$	437,642

The accompanying notes are an integral part of these financial statements.

Metropolitan Education District

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

June 30, 2015		**Agency**
ASSETS		
Cash and investments	$	373,708
Accounts receivable		497
TOTAL ASSETS	$	374,205
LIABILITIES		
Due to student groups	$	374,205

The accompanying notes are an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The District is governed by an elected six-member board. The District operates one high school program and one adult education program in San Jose, California.

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's, *California School Accounting Manual*. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP, and used by the District, are discussed below.

Implementation of New Accounting Standards

Governmental Accounting Standards Board Statements No. 68 and 71 The District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the fiscal year ended June 30, 2015. This statement improves financial reporting for pensions and the information provided about financial support for pensions that are provided by other entities. GASB Statement No. 68, as amended by GASB Statement No. 71, also establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71:

Net Position - as Previously Reported	$ 44,752,652
Cumulative Effect of Change in Accounting Principles	
Net pension liability (measurement date as of June 30, 2013)	(12,456,510)
Deferred Outflows	
District contributions made during fiscal year 2013-14	1,013,729
Cumulative Effect of Change in Accounting Principles	(11,442,781)
Net Position - as Restated	$ 33,309,871

Financial Reporting Entity

The Metropolitan Education District was organized under a Joint Powers Authority by six other local school districts to provide vocational and adult education programs for the high school students and adults in their geographic areas. 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 District.

A reporting entity is comprised of the primary government and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Metropolitan Education District, this includes general operations, adult education, and student-related activities of the District.

Basis of Presentation

Government-Wide Financial Statements The statement of net position and statement of activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function; and, therefore, are clearly identifiable to a particular function. Program revenues include: (a) fees, fines, and charges paid by recipients of goods or services offered by the major programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes and unrestricted grants and contributions, are presented as general revenues.

Fund Financial Statements Fund financial statements of the reporting entity are organized by funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

> Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and
>
> Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below.

Governmental Funds

General Fund The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds Funds that are established to account for the proceeds from specific resources that are restricted to the financing of particular activities.

1. Adult Education Fund is used to account separately for federal, state, and local revenues, and the expenditure of those funds, to operate adult education programs (*California Education Code*, Sections 52616[b] and 52501.5[a]).

2. Deferred Maintenance Fund is used to account separately for state apportionments and District contributions for deferred maintenance purposes. Expenditures in this fund are used for major repairs or replacements as identified in the plan approved by the State Allocation Board (*California Education Code*, Sections 17582-17587).

Capital Projects Funds Funds that are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

1. Building Fund exists primarily to account separately for proceeds from the sale of bonds (*California Education Code,* Section 15146).

2. County School Facilities Fund is used to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*California Education Code*, Section 17070.10).

3. Special Reserve Fund is used to account for resources designated for capital outlay projects (*California Education Code*, Section 42840).

Fiduciary Funds

Agency Funds Funds that are used to account for assets of others for whom the District acts as an agent.

1. Student Body Fund is used to account for the transactions of the associated student body in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*California Education Code*, Sections 48930-48938).

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Major Governmental Funds:
- General Fund
- Adult Education Fund
- Building Fund
- Special Reserve Capital Projects Fund

Nonmajor Governmental Funds:
- Deferred Maintenance Fund
- County School Facilities Fund

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

In the fund financial statements, governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within one year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's Governing Board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund and each major special revenue fund as required supplementary information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures legally cannot exceed appropriations by major object account.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash, Cash Equivalents, and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code,* Section 41001, the District maintains substantially all of its cash in the Santa Clara County Treasury as part of the common investment pool. The County is restricted by *California Government Code,* Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and include accrued interest. The pool has deposits and investments with a weighted-average maturity of more than one year. As of June 30, 2015, the fair value of the County pool is 100.001% of the carrying value and is not deemed to represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code,* Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The change in the fair value of investments was insignificant during the year ended June 30, 2015, and there was no significant unrealized gain or loss on investments held at June 30, 2015.

Restricted Cash, Cash Equivalents, and Investments

Certain restricted cash, cash equivalents, and investments are held by a fiscal agency for the future repayment of the Qualified Zone Academy Bonds (QZAB) which were issued for the purpose of providing monies to finance the modernization project at the District. Restricted cash and cash equivalents are combined with investments and displayed as restricted cash and investments.

Accounts Receivable and Due From Other Governments

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed, but not received, as of June 30, 2015. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the District has earned or been allocated, but has not received, as of June 30, 2015. At June 30, 2015, no allowance for doubtful accounts was deemed necessary.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Prepaid Expenses

Prepaid expenses consist of operating expenses for which payment is due in advance and which are expensed when the benefit is received.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. All fixed assets are valued at historical cost, or estimated historical cost if the actual cost is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to the implementation of GASB Statement No. 34.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives in years by type of asset is as follows:

Buildings and portable classrooms	20-50
Site improvements	5-50
Equipment	2-15

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Advances From Grantors

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Advances from grantors are recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures.

Compensated Absences

The liability for earned but unused vacation leave is recorded as long-term debt for compensated absences in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) which will only be recognized as an outflow of resources (expense/expenditures) in the future. The change in proportion and differences between District contributions and proportionate share of contributions, and District contributions subsequent to the measurement date related to pension plans, are reported as deferred outflows of resources in the government-wide statement of net position. District contributions subsequent to the measurement date will be amortized during the next fiscal year as provided by accounting pronouncement GASB Statement No. 71. The change in proportion and differences between District contributions and proportionate share of contributions is amortized over the estimated service lives of the pension plan participants.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and would only be recognized as an inflow of resources (revenue) at that time. The District's proportionate share of the net difference between projected and actual earnings on pension plan investments is reported as deferred inflows of resources in the government-wide statement of net position. The amount will be amortized over the estimated service lives of the pension plan participants.

Equity Classifications

Government-Wide Statements Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, leases, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted Net Position: Consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements Governmental fund equity is classified as fund balance. Fund balance is further classified and displayed in five components:

Nonspendable Fund Balance: Consists of amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted Fund Balance: Consists of amounts that can be spent only for specific purposes because of constraints that are externally imposed by groups such as creditors, grantors, contributors, laws or regulations of other governments, or because of laws through constitutional provisions or enabling legislation.

Committed Fund Balance: Consists of amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption approved by the District's Board of Trustees.

Assigned Fund Balance: Consists of amounts that the District intends to use for specific purposes. Assignments may be established either by the District's Board of Trustees or a designee of the District's Board of Trustees.

Unassigned Fund Balance: Consists of the residual balance in the General Fund that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to at least two months of General Fund operating expenditures, or 17% of General Fund expenditures and other financing uses.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's Board of Trustees has provided otherwise in its commitment or assignment actions.

Revenue – Nonexchange Transactions

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Expenditures and Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

- Governmental funds – by character
  - Current (further classified by function)
  - Debt service
  - Capital outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Pensions

Deferred outflows of resources/deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and California Public Employees' Retirement System (CalPERS), and additions to/deductions from STRP's and CalPERS's fiduciary net position have been determined on the same basis as they are reported by California State Teachers' Retirement System (CalSTRS) and CalPERS for purposes of measuring the net pension liability. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable with the benefit terms. Investments are reported at fair value.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments:

June 30, 2015	Maturities		Fair Value
Deposits (1)		$	77,802
Investments That Are Not Securities (2)			
County treasurer's investment pool	15.5 months average		10,866,507
Total Cash and Investments			10,944,309
Less: Agency fund cash and investments			373,708
Total Cash and Investments Per Government-Wide Statement of Net Position		$	10,570,601

(1) ***Deposits*** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

(2) ***Investments That are Not Securities*** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Restricted Cash and Investments

The following is a summary of restricted cash and investments with fiscal agents:

June 30, 2015	Maturity Date		Fair Value
Investments That Are Not Securities (1)			
Guaranteed investment contract	12/22/2020	$	873,309

(1) ***Investments That are Not Securities*** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Restricted investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Credit Risk – Investments

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the County investment pool is unrated.

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on the County investment pool:

> No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

California Government Code, Section 53601, places the following concentration limits on the District's investments:

> No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

June 30, 2015	General Fund	Adult Education Fund	Building Fund	Special Reserve Capital Projects Fund	Other Governmental Funds
Interest	$ 9,888	$ 794	$ 2,039	$ 731	$ 1,120
Other	55,717	11,527	-	-	-
Totals	$ 65,605	$ 12,321	$ 2,039	$ 731	$ 1,120

4. DUE FROM OTHER GOVERNMENTS

Due from other governments consisted of the following:

June 30, 2015	General Fund	Adult Education Fund
Due From		
Federal government	$ 4,425	$ 260,253
State government	24,780	68,664
Local governments	1,368,258	255,246
Totals	$ 1,397,463	$ 584,163

5. INTERFUND TRANSACTIONS AND BALANCES

Interfund Receivables/Payables

Interfund receivable and payable balances in the fund financial statements are as follows:

Interfund Receivable	Interfund Payable	Amounts
County School Facilities	General	$ 270,744
Adult Education	General	47
Total		$ 270,791

The specific purposes of the interfund balances are as follows:

To reimburse the County School Facilities Fund for money paid back to the state out of the County School Facilities Fund that should have been paid out of the General Fund.

To reimburse the Adult Education Fund for 2014-15 expenditures incurred by the General Fund and disbursed from the Adult Education Fund.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers are as follows:

Transfer Out	Transfer In	Amount
General	Deferred Maintenance	$ 250,000

Transfers are used for the following:

To move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and

To use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The specific purposes of the interfund transfers that do not occur on a routine basis are as follows:

Interfund transfer out of the General Fund to the Deferred Maintenance Fund to make a contribution to the Deferred Maintenance Fund.

No transfers are inconsistent with the activities of the funds making the transfer.

6. CAPITAL ASSETS

Capital assets activity is as follows:

Year Ended June 30, 2015	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Nondepreciated Capital Assets				
Land	$ 9,683,028	$ -	$ -	$ 9,683,028
Construction in progress	6,468,722	58,552	6,527,274	-
Total Nondepreciated Capital Assets	16,151,750	58,552	6,527,274	9,683,028
Depreciated Capital Assets				
Buildings	31,218,088	7,039,968	-	38,258,056
Site improvements	2,039,696	38,944	-	2,078,640
Equipment	4,165,363	19,886	-	4,185,249
Total Depreciated Capital Assets	37,423,147	7,098,798	-	44,521,945
Totals at Historical Cost	53,574,897	7,157,350	6,527,274	54,204,973
Less: Accumulated Depreciation				
Buildings	14,443,316	1,126,382	-	15,569,698
Site improvements	674,224	103,139	-	777,363
Equipment	2,435,274	271,247	-	2,706,521
Total Accumulated Depreciation	17,552,814	1,500,768	-	19,053,582
Total Depreciated Capital Assets - Net	19,870,333	5,598,030	-	25,468,363
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	$ 36,022,083	$ 5,656,582	$ 6,527,274	$ 35,151,391

Depreciation expense was charged to governmental activities as follows:

Year Ended June 30, 2015		
Governmental Activities		
Instruction	$	1,483,309
Instruction-related services		14,045
Plant services		3,414
Total Depreciation Expense - Governmental Activities	$	1,500,768

7. ACCOUNTS PAYABLE

Accounts payable consisted of the following:

June 30, 2015		General Fund		Adult Education Fund		Special Reserve Capital Projects Fund		Other Governmental Funds
Vendors	$	487,479	$	36,877	$	875	$	18,726
Salaries and benefits		186,029		21,210		-		-
Other		3,999		12,845		-		-
Totals	$	677,507	$	70,932	$	875	$	18,726

8. DUE TO OTHER GOVERNMENTS

Due to other governments consisted of the following:

June 30, 2015		General Fund		Adult Education Fund		Building Fund
Due To						
State government	$	3,062	$	160	$	-
Local governments		126		1,160		54,171
Totals	$	3,188	$	1,320	$	54,171

9. BONDED DEBT

On December 1, 2005, the District issued Qualified Zone Academy Bonds (QZAB). The bonds required an initial cash contribution of $697,865 to be deposited with a fiscal agent. Interest is payable annually on December 22. The current balance of deposits with the fiscal agent at June 30, 2015, is $873,309. Principal will be paid on the maturity date of December 22, 2020. The bonds were issued for the purpose of providing monies to finance the modernization project at the CCOC. The outstanding QZAB balance is as follows:

Issue Date	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2014	Redeemed Current Year	Outstanding June 30, 2015
2006	1.95%	2021	$ 1,000,000	$ 1,000,000	$ -	$ 1,000,000

The amount of interest cost incurred during the year ended June 30, 2015, was $19,500, all of which was charged to expenses.

The annual requirements to amortize the QZAB payable are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ -	$ 19,500	$ 19,500
2017	-	19,500	19,500
2018	-	19,500	19,500
2019	-	19,500	19,500
2020	-	19,500	19,500
2021	1,000,000	19,500	1,019,500
Totals	$ 1,000,000	$ 117,000	$ 1,117,000

10. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt:

Year Ended June 30, 2015	Beginning Balance	Cumulative Effect of Change in Accounting Principles	Restated Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities							
Compensated absences	$ 188,525	$ -	$ 188,525	$ -	$ 10,325	$ 178,200	$ -
Qualified Zone Academy Bonds	1,000,000	-	1,000,000	-	-	1,000,000	-
Early retirement incentives	1,141,672	-	1,141,672	-	228,334	913,338	228,334
Net OPEB obligation	796,861	-	796,861	153,852	-	950,713	-
Net pension liability	-	12,456,510	12,456,510	-	3,091,689	9,364,821	-
Totals	$ 3,127,058	$ 12,456,510	$ 15,583,568	$ 153,852	$ 3,330,348	$ 12,407,072	$ 228,334

11. FUND BALANCES COMPONENTS

Fund balances are composed of the following:

June 30, 2015	General Fund	Adult Education Fund	Building Fund	Special Reserve Capital Projects Fund	Other Governmental Funds
Nonspendable					
Reserved for:					
Revolving cash	$ 20,000	$ -	$ -	$ -	$ -
Prepaid expenditures	26,152	22,461	-	-	-
Totals Nonspendable	$ 46,152	$ 22,461	$ -	$ -	$ -
Restricted					
Restricted for:					
Capital projects	$ -	$ -	$ 1,413,307	$ -	$ 629,223
Federal and state categoricals	31,198	19,533	-	-	-
Totals Restricted	$ 31,198	$ 19,533	$ 1,413,307	$ -	$ 629,223
Committed					
Committed for:					
Adult education	$ -	$ 1,015,808	$ -	$ -	$ -
Deferred maintenance	-	-	-	-	274,711
Totals Committed	$ -	$ 1,015,808	$ -	$ -	$ 274,711

June 30, 2015	General Fund	Adult Education Fund	Building Fund	Special Reserve Capital Projects Fund	Other Governmental Funds
Assigned					
Assigned for:					
Capital projects	$ 973,028	$ -	$ -	$ 1,405,543	$ -
Deferred maintenance	500,000	-	-	-	-
Required 5% reserve	665,522	-	-	-	-
CalSTRS/CalPERS employer rate increase	275,000	-	-	-	-
Net OPEB obligation	1,961,118	-	-	-	-
Technology	300,000	-	-	-	-
PARS	734,066	-	-	-	-
Self-insured income protection	50,000	-	-	-	-
Legal/LEA program/student funds	182,893	-	-	-	-
Lottery carryover	418,837	-	-	-	-
Totals Assigned	$ 6,060,464	$ -	$ -	$ 1,405,543	$ -
Unassigned					
Designated for economic uncertainties	$ 1,782,846	$ -	$ -	$ -	$ -

12. LEASE REVENUE

The District has land held for lease. Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days' written notice to lessees, but it is unlikely that the District will cancel any of the agreements prior to their expiration date. The rental amount will be adjusted annually by the consumer price index. Due to the economy-driven loss of a number of sub-leases for the Capital Auto Mall project, the District agreed to a two-year reduction of 33% in the rent payments starting 2008-09. The reduction agreement was amended to extend to June 30, 2013. As of June 30, 2013, the Capital Auto Mall project was undergoing negotiations with the District to extend the reduced rates to 2015, and negotiations are still underway.

The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30		Lease Revenue		Paid to County		District Portion
2016	$	243,288	$	57,756	$	185,532
2017		121,644		28,878		92,766
Totals	$	364,932	$	86,634	$	278,298

13. JOINT POWERS AUTHORITIES

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Santa Clara County Schools Insurance Group (SCCSIG), South Bay Area Schools Insurance Authority (SBASIA), and CSAC Excess Insurance Authority (EIA). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property, liability, and workers' compensation coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

14. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

The District received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

15. RISK MANAGEMENT

The District is exposed to various risks, including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under joint powers agreements for property, liability, and workers' compensation coverage.

16. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of the CalSTRS, and classified employees are members of the CalPERS.

California State Teachers' Retirement System

Plan Description Certificated employees of the District participate in the State Teachers' Retirement Plan (STRP), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions are established by state statute, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues publicly available financial reports that can be obtained at www.calstrs.com.

Benefits Provided STRP provides retirement, disability, and survivor benefits to beneficiaries. The defined benefit program provides retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. The program has two benefit formulas:

- **CalSTRS 2% at 60** CalSTRS 2% at 60 members are eligible for normal retirement at age 60 with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirement after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

- **CalSTRS 2% at 62** CalSTRS 2% at 62 members are eligible for normal retirement at age 62 with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

Contributions Required member, employer, and state contribution rates are set by the California Legislature and Governor and are detailed in the Teachers' Retirement Law. Active plan members are required to contribute 8.15% of their salary. The required employer contribution rate for fiscal year 2014-15 was 8.88% of annual payroll. The Teachers' Retirement Law also requires the state to contribute 5.954% of the members' creditable earnings from the fiscal year ending in the prior calendar year. The District's contributions to CalSTRS for the fiscal year ended June 30, 2015, were $405,506.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2015, the District reported a net pension liability for its proportionate share of the net pension liability that reflected a reduction for state pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District, were as follows:

June 30, 2015		
District's proportionate share of the net pension liability	$	5,453,767
State's proportionate share of the net pension liability associated with the District		2,200,153
Total	$	7,653,920

The District's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. At June 30, 2015, the District's proportionate share was 0.010%.

For the year ended June 30, 2015, the District recognized pension expense of $52,296 and revenue of $52,296 for support provided by the state. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

June 30, 2015		**Deferred Outflows Resources**		**Deferred Inflows Resources**
Net difference between projected and actual earnings on pension plan investments	$	-	$	1,439,000
Changes in proportion and differences between District contributions and proportionate share of contributions		18,688		-
District contributions subsequent to the measurement date		405,506		-
Totals	$	424,194	$	1,439,000

The $405,506 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		
2016	$	(357,080)
2017		(357,080)
2018		(357,080)
2019		(357,080)
2020		2,670
Thereafter		5,338
Total	$	(1,420,312)

Actuarial Assumptions The total pension liability in the June 30, 2013, actuarial valuation was determined using the following actuarial assumptions and applied to all periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.60% (1)
Interest on accounts	4.50%
Wage growth	3.75%
Consumer price inflation	3.00%
Post-retirement benefit increases	2.00% simple

(1) Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS' experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the period July 1, 2006, through June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS' consulting actuary's (Milliman) investment practice, a best-estimate range was determined by assuming the portfolio is rebalanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return, and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return, are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.02%
Cash/liquidity	1%	0.00%
Total	100%	

Discount Rate The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assumes that contributions, benefit payments, and administrative expenses occur mid-year. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

June 30, 2015	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	$ 8,500,996	$ 5,453,767	$ 2,912,931

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalSTRS' separately issued *Comprehensive Annual Financial Report* (CAFR).

California Public Employees' Retirement System

Plan Description Classified employees of the District participate in the School Employer Pool (the Plan) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by state statute, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a publicly available financial report that can be obtained at www.calpers.ca.gov.

Benefits Provided The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefits are based on members' years of service, age, final compensation, and benefit formula. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions Member contribution rates are defined by law. Employer contribution rates are determined by periodic actuarial valuations. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Active plan members are required to contribute 7.00% of their salary. The required employer contribution rate for the 2014-15 fiscal year was 11.771%. The District's contributions to CalPERS for the fiscal year ended June 30, 2015, were $506,324.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2015, the District reported a net pension liability of $3,911,054 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. At June 30, 2015, the District's proportion was 0.0345%.

For the year ended June 30, 2015, the District recognized pension expense of $412,383. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

June 30, 2015		**Deferred Outflows Resources**		**Deferred Inflows Resources**
Net difference between projected and actual earnings on pension plan investments	$	-	$	1,345,784
Changes in proportion and differences between District contributions and proportionate share of contributions		156,214		-
District contributions subsequent to the measurement date		506,324		-
Totals	$	662,538	$	1,345,784

The $506,324 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		
2016	$	(297,393)
2017		(297,393)
2018		(297,392)
2019		(297,392)
Total	$	(1,189,570)

Actuarial Assumptions The total pension liability in the June 30, 2013, actuarial valuation for CalPERS was determined using the following actuarial assumptions applied to all periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	7.50%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50% (1)

(1) Net of pension plan investment and administrative expenses; includes inflation.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries, Scale BB.

The actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the period July 1, 1997, through June 30, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

	Target	Rate of Return	
	Allocation	**Years 1 - 10**	**Years 11+**
Asset Class			
Global equity	47%	5.25%	5.71%
Global fixed income	19%	0.99%	2.43%
Inflation sensitive	6%	0.45%	3.36%
Private equity	12%	6.83%	6.95%
Real estate	11%	4.50%	5.13%
Infrastructure and forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

Discount Rate The discount rates used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods recently adopted by CalPERS were utilized. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

June 30, 2015	**1% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1% Increase (8.50%)**
District's proportionate share of the net pension liability	$ 6,860,881	$ 3,911,054	$ 1,446,176

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalPERS' separately issued *Comprehensive Annual Financial Report* (CAFR).

17. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit healthcare plan administered by the District. The District provides postemployment health care benefits to all certificated and classified employees and their dependents who retire from the District on or after attaining the age of 55 with at least ten years of service in the District. The District contributes $80 per month to retirees until they reach age 65, at which point the District contributes $35 per month.

At June 30, 2015, 40 retirees met these eligibility requirements and an estimated 108 participants will be eligible in future years.

Funding Policy

The District's agreement with employees is for monthly contributions for members who meet the eligibility criteria of their collective bargaining agreement and who retire during the term of the contract. The contribution requirements of plan members and the District are established and may be amended by the District's Board of Trustees through the collective bargaining process. The members receiving benefits contributions vary depending on the level of coverage selected.

Annual Other Postemployment Benefit (OPEB) Cost and Net Obligation

For the year ended June 30, 2015, the District's annual OPEB cost is calculated based on the annual required contribution for the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation:

June 30, 2015		
Annual required contribution	$	197,405
Interest on net OPEB obligation		31,874
Adjustment to annual required contribution		(46,083)
Annual OPEB Cost		183,196
Contributions		29,344
Change in Net OPEB Obligation		153,852
Net OPEB Obligation - Beginning of Year		796,861
Net OPEB Obligation - End of Year	$	950,713

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Year Ended		Annual OPEB Cost		Actual Employer Contributions	Percentage Contributed		Net Ending OPEB Obligation
June 30, 2013	$	47,723	$	39,361	82.48%	$	634,724
June 30, 2014	$	186,088	$	23,951	12.87%	$	796,861
June 30, 2015	$	183,196	$	29,344	16.02%	$	950,713

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $1,566,555, and the actuarial value of the assets was $-0-, resulting in an unfunded actuarial accrued liability of $1,566,555. The covered payroll (annual payroll of active employees covered by the plan) was $8,866,806, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 17.67%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information follows the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the District and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and annual health care cost trend rates of 8% initially, reduced by decrements to an ultimate rate of 5% after three years. Both rates include a 4% inflation assumption. The District's initial unfunded actuarial accrued liability (UAAL) is amortized using an open amortization period of 30 years.

18. SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

In addition to the retirement plans maintained by CalSTRS and CalPERS, the District provides an early retirement incentive. This Supplemental Employee Retirement Plan (SERP) is a fixed annuity product designed to be qualified under 403(b) of the Internal Revenue Service Code. Eligibility is restricted to employees who were employed by the District as of March 12, 2014, and who notified the District of their intent to retire if retirement occurred by June 30, 2014; and, for certificated employees who were age 55 or older with ten years of service with the District; or, certificated employees who were age 50 or older with 30 years of service with the District; or, classified employees who were 50 or older with ten years of service with the District. For certificated and classified employees retiring as of June 30, 2014, the District will contribute 5.5% of all premiums made by the District on behalf of participants in the plan, subject to a minimum of $3,500 per year for five years.

The District funds this program over a period of five years for each eligible retiree. The District's payment for the years ended June 30, 2015, 2014, and 2013, were 228,334, $-0-, and $-0-, respectively, for employees who elected early retirement under this plan. Future payments for employees who elected early retirement will be $913,338. Expenditures are recognized in the governmental funds when payments are made. Expenses are recognized in the government-wide financial statements in the year of retirement.

19. FUTURE GASB IMPLEMENTATION

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement will improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in GASB Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2015, will have on the District's financial statements, if any.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2017, will have on the District's financial statements, if any.

Required Supplementary Information

Metropolitan Education District

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year Ended June 30, 2015	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
Revenues				
Other state revenue	$ 30,099	$ 30,099	$ 973,462	$ 943,363
Federal revenue	75,092	14,135	14,135	-
Other local revenue	14,440,724	13,824,683	14,049,049	224,366
Total Revenues	14,545,915	13,868,917	15,036,646	1,167,729
Expenditures				
Certificated salaries	3,638,765	3,499,873	3,175,192	324,681
Classified salaries	2,539,086	2,534,761	2,353,616	181,145
Employee benefits	2,323,506	2,513,124	2,670,929	(157,805)
Books and supplies	1,151,307	1,013,876	751,366	262,510
Services and other operating	2,898,648	3,237,652	3,262,846	(25,194)
Capital outlay	46,733	40,127	5,346	34,781
Other outgo	2,035,384	1,333,515	1,333,515	-
Total Expenditures	14,633,429	14,172,928	13,552,810	620,118
Excess (Deficiency) of Revenues Over Expenditures	(87,514)	(304,011)	1,483,836	1,787,847
Other Financing Sources (Uses)				
Interfund transfers out	(16,182)	(250,000)	(250,000)	-
Net Change in Fund Balances	(103,696)	(554,011)	1,233,836	1,787,847
Fund Balances - Beginning of Year	6,686,824	6,686,824	6,686,824	-
Fund Balances - End of Year	$ 6,583,128	$ 6,132,813	$ 7,920,660	$ 1,787,847

See the accompanying notes to this budgetary comparison schedule.

Metropolitan Education District
BUDGETARY COMPARISON SCHEDULE – ADULT EDUCATION FUND

Year Ended June 30, 2015	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
Revenues				
Other state revenue	$ -	$ -	$ 68,664	$ 68,664
Federal revenue	440,691	488,833	488,833	-
Other local revenue	3,077,852	3,322,134	3,165,058	(157,076)
Total Revenues	3,518,543	3,810,967	3,722,555	(88,412)
Expenditures				
Certificated salaries	1,574,098	1,518,988	1,507,516	11,472
Classified salaries	909,685	941,437	913,715	27,722
Employee benefits	1,085,650	1,187,814	1,031,569	156,245
Books and supplies	126,849	151,312	124,102	27,210
Services and other operating	367,578	416,573	378,446	38,127
Capital outlay	-	210	210	-
Total Expenditures	4,063,860	4,216,334	3,955,558	260,776
Excess (Deficiency) of Revenues Over Expenditures	(545,317)	(405,367)	(233,003)	172,364
Other Financing Sources (Uses)				
Interfund transfers in	16,182	-	-	-
Net Change in Fund Balances	(529,135)	(405,367)	(233,003)	172,364
Fund Balances - Beginning of Year	1,290,805	1,290,805	1,290,805	-
Fund Balances - End of Year	$ 761,670	$ 885,438	$ 1,057,802	$ 172,364

See the accompanying notes to this budgetary comparison schedule.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's Governing Board annually adopts budgets for the General Fund and each major special revenue fund of the District. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule of the General Fund and the special revenue funds present actual expenditures in accordance with the accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations by the following amounts:

June 30, 2015		**General Fund**
Employee benefits	$	157,805
Services and other operating	$	25,194

These excess expenditures were offset by unexpended appropriations in other categories.

Metropolitan Education District

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS

July 1		2009		2011		2013
Actuarial accrued liability (AAL)	$	1,808,239	$	716,605	$	1,566,555
Actuarial value of plan assets		-		-		-
Unfunded Actuarial Accrued Liability (UAAL)	$	1,808,239	$	716,605	$	1,566,555
Funded ratio (actuarial value of plan assets/AAL)		0.00%		0.00%		0.00%
Covered payroll (active members)	$	12,356,188	$	9,033,571	$	8,866,806
UAAL as a percentage of covered payroll		14.63%		7.93%		17.67%

Metropolitan Education District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Year Ended June 30, 2015

District's portion of the net pension liability (asset)		0.010%
District's proportionate share of the net pension liability (asset)	$	5,453,767
State's proportionate share of the net pension liability (asset) associated with the District		2,200,153
Total	$	7,653,920
District's covered-employee payroll	$	4,718,149
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		115.59%
Plan fiduciary net position as a percentage of the total pension liability		77.00%

See the accompanying note to the required supplementary information.

Metropolitan Education District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Year Ended June 30, 2015

Contractually required contribution	$	405,506
Contributions in relation to the contractually required contribution		(405,506)
Contribution Deficiency (Excess)	$	-
District's covered-employee payroll	$	4,718,149
Contributions as a percentage of covered-employee payroll		8.59%

See the accompanying note to the required supplementary information.

Metropolitan Education District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Year Ended June 30, 2015

District's portion of the net pension liability (asset)		0.0345%
District's proportionate share of the net pension liability (asset)	$	3,911,054
District's covered-employee payroll	$	3,620,801
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		108.02%
Plan fiduciary net position as a percentage of the total pension liability		83.50%

See the accompanying note to the required supplementary information.

Metropolitan Education District
SCHEDULE OF DISTRICT'S CONTRIBUTIONS –
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Year Ended June 30, 2015

Contractually required contribution	$	506,324
Contributions in relation to the contractually required contribution		(506,324)
Contribution Deficiency (Excess)	$	-
District's covered-employee payroll	$	3,620,801
Contributions as a percentage of covered-employee payroll		13.98%

See the accompanying note to the required supplementary information.

CHANGES OF BENEFIT TERMS

California State Teachers' Retirement System

The California Pension Employees' Pension Reform Act of 2013 (PEPRA) resulted in a new benefit formula, CalSTRS 2% at 62, for members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS. Significant changes compared to the CalSTRS 2% at 60 benefit formula include raising the normal retirement age from 60 to 62 and placing a limit on creditable compensation to 120% of the Social Security wage base, annually adjusted for changes in the Consumer Price Index. See note 1 for more information on CalSTRS 2% at 62 benefit formula.

California Public Employees' Retirement System

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions used for a specific plan can be found in the plan's annual valuation report.

CHANGES OF ASSUMPTIONS

California State Teachers' Retirement System

There were no changes in major assumptions from the June 30, 2013, actuarial valuation.

California Public Employees' Retirement System

In February 2014, the CalPERS Board adopted new actuarial assumptions. The most significant change to the actuarial assumptions that the Board adopted was the inclusion of future mortality improvement. The actuarial assumptions adopted by the Board are designed to ensure greater sustainability and soundness of the defined benefit pension plans, and they will be better at predicting future experiences resulting in more secure retirement benefits in the decades to come. The current experience study was based on demographic CalPERS data for years 1997 to 2011. The study focused on recent patterns of termination, death, disability, retirement and salary increases. These new assumptions were reflected in the total pension liabilities as of June 30, 2013. The 2013 liabilities were rolled forward to the measurement date of June 30, 2014, using standard update procedures.

OTHER SUPPLEMENTARY INFORMATION SECTION

The Metropolitan Education District (the District) is located in Santa Clara County and operates two programs: a high school program (SVCTE), established in 1917; and an adult education program (SVAE), established in 1883. There were no changes in the boundaries of the District during the current year.

GOVERNING BOARD

Name	Office	Term Expires
Matthew Dean	President	2015
Lan Nguyen	Vice President	2015
Cynthia Chang	Clerk	2016
Jim Canova	Member	2015
Daniel Bobay	Member	2016
Teresa Castellanos	Member	2016

ADMINISTRATION

Alyssa Lynch
Superintendent

Marie dela Cruz
Chief Business Officer

Metropolitan Education District

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

Years Ended June 30	(Budget) 2016		2015		2014		2013	
General Fund								
Revenues and other financial sources	$ 13,793,929		$ 15,036,646		$ 15,067,796		$ 15,496,182	
Expenditures	14,005,879		13,552,810		14,267,583		14,497,869	
Other uses and transfers out	-		250,000		228,746		200,000	
Total Outgo	14,005,879		13,802,810		14,496,329		14,697,869	
Change in Fund Balance	(211,950)		1,233,836		571,467		798,313	
Ending fund balance	$ 7,708,710		$ 7,920,660		$ 6,686,824		$ 6,115,357	
Available reserves	$ 1,564,284		$ 1,782,846		$ 1,448,715		$ 2,209,677	
Designated for economic uncertainties	$ 1,564,284		$ 1,782,846		$ 1,448,715		$ 1,473,117	
Undesignated fund balance	$ -		$ -		$ -		$ 736,560	
Available reserves as a percentage of total outgo	11%		13%		10%		15%	
Total long-term debt	$ 12,178,738		$ 12,407,072		$ 15,583,568	**	$ 1,893,716	
Average daily attendance at P-2	7,699	*	7,699	*	7,699	*	7,699	*

** Pursuant to SBX3 4, the ROP is funded on 2007-08 attendance.*

*** As restated for implementation of GASB Statement No. 68, as amended by GASB Statement No. 71.*

The General Fund balance has increased by $1,805,303 over the past two years. The fiscal year 2015-16 budget projects a decrease of $211,950 (2.6%). For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has not incurred an operating deficit in any of the past three years. An operating deficit is anticipated during the 2015-16 fiscal year. Total long-term debt has increased by $10,513,356 over the past two years.

See the accompanying note to the other supplementary information.

Metropolitan Education District

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2015

The fund balances for all funds, as reported in the annual financial and budget report, equal the corresponding balances in the audited financial statements.

See the accompanying note to the other supplementary information.

Metropolitan Education District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. Department of Education			
Passed Through California Department of Education			
Vocational programs - Adult, Section 132	84.048	14893	$ 28,270
Adult Education Cluster			
Adult Education - Adult Basic Education and ESL	84.002	14508	188,974
Adult Education - Adult Secondary Education	84.002	13978	188,941
Adult Education - English Literacy and Civics Education	84.002	14109	96,783
Total Adult Education Cluster			474,698
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 502,968

See the accompanying note to the other supplementary information.

PURPOSE OF SCHEDULES

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current-year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of each fund, as reported in the annual financial and budget report, to the audited financial statements.

Schedule of Expenditures of Federal Awards

This schedule is prepared on the modified accrual basis of accounting. OMB Circular A-133 requires disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 requirements.

OTHER REPORTS SECTION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Metropolitan Education District
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Education District (the District) as of and for the year ended June 30, 2015; and the related notes to the financial statements, which collectively comprise the District's basic financial statements; and have issued our report thereon dated December 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect, and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KCoe Isom, LLP

December 9, 2015
Chico, California

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees
Metropolitan Education District
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Metropolitan Education District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133
(Continued)

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect, and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the results of that testing, based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KCoe Isom, LLP

December 9, 2015
Chico, California

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees
Metropolitan Education District
San Jose, California

Compliance

We have audited the Metropolitan Education District's (the District) compliance with the types of state compliance requirements described in the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, for the year ended June 30, 2015. The applicable state compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance with the state laws and regulations based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards and the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
(Continued)

June 30, 2015	Procedures Performed
Attendance	Not applicable
Teacher certification and misassignments	Not applicable
Kindergarten continuance	Not applicable
Independent study	Not applicable
Continuation education	Not applicable
Instructional time	Not applicable
Instructional materials	Not applicable
Ratios of administrative employees to teachers	Not applicable
Classroom teacher salaries	Not applicable
Early retirement incentive	Not applicable
Gann limit calculation	Not applicable
School accountability report card	Not applicable
Juvenile court schools	Not applicable
Middle or early college high schools	Not applicable
K-3 grade span adjustment	Not applicable
Transportation maintenance of effort	Not applicable
Regional occupational centers or programs maintenance of effort	Not applicable
Adult education maintenance of effort	Not applicable
California Clean Energy Jobs Act	Not applicable
After school education and safety program:	
After school	Not applicable
Before school	Not applicable
General requirements	Not applicable
Proper expenditure of education protection account funds	Not applicable
Common core implementation funds	Not applicable
Unduplicated local control funding formula pupil counts	Not applicable
Local control and accountability plan	Not applicable
Charter schools:	
Attendance	Not applicable
Mode of instruction	Not applicable
Nonclassroom-based instruction/independent study	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes - classroom based	Not applicable
Charter school facility grant program	Not applicable

Opinion on State Compliance

In our opinion, the District complied, in all material respects, with the state laws and regulations referred to above that are applicable to the District for the year ended June 30, 2015.

KCoe Isom, LLP

December 9, 2015
Chico, California

FINDINGS AND QUESTIONED COSTS SECTION

SECTION I
SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs: Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs: CFDA No. 84.002 Adult Education - Basic Grants to States	
Threshold for distinguishing types A and B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Compliance over state programs: Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for state programs:	Unmodified

SECTION II
FINANCIAL STATEMENTS AUDIT

None.

SECTION III FINDINGS
FEDERAL AWARDS AUDIT

None.

SECTION IV FINDINGS
STATE AWARDS AUDIT

None.

Not applicable: there are no current-year findings related to federal awards.

INTERNAL CONTROL (Cash Receipts – Cafeteria)
30000 (2014-001)

Significant Deficiency

Condition During our walkthrough of the cafeteria cash receipts process, we noted that deposits were not made in a timely manner.

Criteria Internal controls should be in place to provide that all cafeteria cash and checks received are deposited on a weekly basis.

Effect Without strengthening internal controls over cafeteria cash receipts, assets may not be properly safeguarded.

Recommendation Procedures should be implemented to strengthen internal controls over cafeteria cash receipts.

Current Status Fully implemented.

INTERNAL CONTROL (Off-Premises Information Systems Backup)

30000 (2014-002)

Significant Deficiency

Condition The District relies on personnel to maintain off-premises information storage of backup copies of computer applications, related documentation, computer master files, and transaction files. The transportation and storage of such backup copies kept at District personnel residences creates the opportunity for theft of, or damage to, the backup copies.

Criteria Copies of computer backup files should be maintained in a secure location independent of the District's servers.

Effect Without having secure and independent storage of backup copies, computer applications, related documentation, computer master files and transactions files, data may not be properly safeguarded. The District is subject to risk of loss of data in the event of a disaster and/or network failure.

Recommendation The District should develop and implement a plan for secure and independent storage of backup copies. The storage should be maintained on a regularly scheduled basis. Options for such storage plans include:

1. A safe in another building at the District that is remote from the servers;

2. A safe deposit box at a financial institution; or

3. An internet-based, off-site backup and storage solution.

In any case, we recommend that the storage be maintained daily, every-other-day, or on a weekly basis.

Current Status Fully implemented.

INTERNAL CONTROL (Payroll)
30000 (2014-003)

Significant Deficiency

Condition During our test work over payroll we noted:

Two employees receiving master's degree stipends that were not supported by master's degree documentation in the employees' personnel file;

1. We were unable to recalculate the retroactive pay for six out of eight employees selected for testing who were receiving retroactive pay; and

2. Five timesheets dating from February 2014 to July 2014 documenting one employee's overtime hours were not completed, approved, or submitted to payroll until November 2014.

Criteria Internal controls should provide reasonable assurance that:

1. All employees' pay is substantiated by documentation in the employees' personnel files supporting the pay rates and stipends paid;

2. All employees are paid based on rates established in the District's salary schedules; and

3. All employee timecards are completed, approved, and submitted timely to ensure accurate and timely payment to employees and proper recording of payroll liabilities and expenses.

Effect Without strengthening internal controls over payroll disbursements, salaries and wages may be improperly paid to District employees.

Recommendation Documentation supporting the approved step level and special pay of each employee should be maintained by the Human Resources and Payroll departments. For retroactive pay, or other special payroll disbursements not ordinarily occurring, the method of calculation for such pay should be pre-established and reviewed prior to any payroll processing. A District official who is independent of the preparation of the payroll calculations should compare the calculation of each employee's pay to the pre-established calculation method prior to approving each payroll. Employee timecards should be submitted monthly.

Current Status Fully implemented.