

# **Metropolitan Education District**

**County of Santa Clara  
San Jose, California**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITORS' REPORTS**

**June 30, 2016**



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# Metropolitan Education District

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# Metropolitan Education District

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## **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, 2016; 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, 2016, 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.

### ***Other Matters***

***Required Supplementary Information*** Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedules, and the required supplementary information listed in 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 65 to 66 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 65 to 66 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.

## INDEPENDENT AUDITORS' REPORT

(Continued)

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, 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 13, 2016  
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, 2016, 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).

## **FINANCIAL HIGHLIGHTS**

Overall revenues were \$19,870,335. Overall revenues exceeded expenses by \$2,312,795.

Total net position in governmental funds was \$36,060,308, an increase of 6.85% from the previous year. The General Fund reported a total fund balance of \$9,001,853.

The District decreased its long-term debt from \$12,407,072 in 2014-15 to \$11,119,379 in 2015-16. This represents a 10.4% 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.

# **Metropolitan Education District**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

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### **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 nonfinancial 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).

# **Metropolitan Education District**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

(Continued)

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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.

**Metropolitan Education District**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

**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, 2016, was \$36,060,308. Of this amount \$408,506 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		Percentage
	2015	2016	Change 2015-16
<b>ASSETS</b>			
Cash and investments	\$ 10,570,601	\$ 15,507,953	46.7%
Receivables	81,816	132,011	61.4%
Due from other governments	1,981,626	670,061	-66.2%
Prepaid expenses	48,613	85,747	76.4%
Restricted cash and investments	873,309	895,763	2.6%
Capital assets not depreciated	9,683,028	9,683,028	0.0%
Capital assets - net of accumulated depreciation	25,468,363	24,102,900	-5.4%
<b>TOTAL ASSETS</b>	<b>48,707,356</b>	<b>51,077,463</b>	<b>4.9%</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources for pensions	1,086,732	1,207,843	11.1%
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	768,040	657,685	-14.4%
Due to other governments	58,679	415,341	607.8%
Advances from grantors	28,000	1,900,816	6688.6%
Long-term obligations:			
Due within one year	228,334	228,334	0.0%
Due beyond one year	12,178,738	10,891,045	-10.6%
<b>TOTAL LIABILITIES</b>	<b>13,261,791</b>	<b>14,093,221</b>	<b>6.3%</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources for pensions	2,784,784	2,131,777	-23.4%
<b>NET POSITION</b>			
Net investment in capital assets	34,151,391	32,785,928	-4.0%
Restricted for capital projects	2,042,530	2,130,111	4.3%
Restricted for educational programs	50,731	735,763	1350.3%
Unrestricted	(2,497,139)	408,506	116.4%
<b>TOTAL NET POSITION</b>	<b>\$ 33,747,513</b>	<b>\$ 36,060,308</b>	<b>6.85%</b>

**Metropolitan Education District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

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**CHANGES IN NET POSITION**

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

Total revenues were \$19,870,335. Interagency revenue accounted for most of the District's revenue, representing approximately 73.86% of all revenue. Another 19.20% came from operating grants and contributions, and the remaining 6.94% 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 4.4% to \$17,557,540. Revenues exceeded the District's expenses for the year by \$2,312,795. The District's expenses are primarily related to educating and caring for students (77.90%). Maintenance and operations account for 9.80% of the total costs. The remaining 12.30% is for interest and other expenses.

June 30	<b>Governmental Activities</b>		<b>Percentage</b>
	<b>2015</b>	<b>2016</b>	<b>Change</b>
			<b>2015-16</b>
<b>REVENUES</b>			
<b>Program Revenues</b>			
Operating grants and contributions	\$ 1,617,004	\$ 3,814,945	135.9%
<b>General Revenues</b>			
Federal and state aid not restricted	778,484	72,791	-90.6%
Interest and investment earnings	89,699	133,419	48.7%
Interagency revenues	14,767,793	14,675,445	-0.6%
Miscellaneous	1,542,992	1,173,735	-23.9%
<b>TOTAL REVENUES</b>	<b>18,795,972</b>	<b>19,870,335</b>	<b>5.7%</b>
<b>EXPENSES</b>			
Instruction	7,011,426	7,193,360	2.6%
Instruction-related services	6,782,495	5,506,961	-18.8%
Pupil services	842,422	983,501	16.7%
Plant services	2,367,222	1,712,316	-27.7%
General administration	-	806,637	100.0%
Interest on long-term debt	19,500	19,500	0.0%
Other	1,335,265	1,335,265	0.0%
<b>TOTAL EXPENSES</b>	<b>18,358,330</b>	<b>17,557,540</b>	<b>-4.4%</b>
<b>Change in Net Position</b>	<b>\$ 437,642</b>	<b>\$ 2,312,795</b>	<b>428.5%</b>

**Metropolitan Education District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Continued)

The District's total expenses were \$17,557,540; however, the net cost for these activities was \$13,742,595 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.

June 30	Total Cost of Services		Percentage
	2015	2016	Change 2015-16
Instruction	\$ 7,011,426	\$ 7,193,360	2.6%
Instruction-related services	6,782,495	5,506,961	-18.8%
Pupil services	842,422	983,501	16.7%
Plant services	2,367,222	1,712,316	-27.7%
General administration	-	806,637	N/A
Interest on long-term debt	19,500	19,500	0.0%
Other outgo	1,335,265	1,335,265	0.0%
<b>Total</b>	<b>\$ 18,358,330</b>	<b>\$ 17,557,540</b>	<b>-4.4%</b>

June 30	Net Cost of Services		Percentage
	2015	2016	Change 2015-16
Instruction	\$ 6,271,357	\$ 5,638,193	10.1%
Instruction-related services	5,907,350	3,261,178	-44.8%
Pupil services	842,422	971,792	15.4%
Plant services	2,365,995	1,711,708	-27.7%
General administration	-	804,959	N/A
Community service	(563)	-	-100.0%
Interest on long-term debt	19,500	19,500	0.0%
Other outgo	1,335,265	1,335,265	0.0%
<b>Total</b>	<b>\$ 16,741,326</b>	<b>\$ 13,742,595</b>	<b>-17.9%</b>

**Metropolitan Education District**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

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**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**Governmental Funds**

The District's governmental funds reported a combined fund balance of \$14,317,693, an increase of \$1,616,447 from the previous year. Following is a summary of the District's fund balances.

June 30	Fund Balance		Increase (Decrease)
	2015	2016	
General	\$ 7,920,660	\$ 9,001,853	\$ 1,081,193
Adult Education	1,057,802	1,554,548	496,746
Deferred Maintenance	274,711	189,497	(85,214)
Building	1,413,307	1,617,575	204,268
Special Reserve Capital Projects	1,405,543	1,320,672	(84,871)
County School Facilities	629,223	633,548	4,325
<b>Total</b>	<b>\$ 12,701,246</b>	<b>\$ 14,317,693</b>	<b>\$ 1,616,447</b>

The increase in the General Fund is due primarily to grant awards including the California Career Pathways Trust Grant (CCPT).

The increase in the Adult Education Fund is mainly due to the Adult Education Block Grant (AEBG).

The decrease in the Deferred Maintenance Fund is due to expenditures for deferred maintenance projects.

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

The decrease in the Special Reserve Capital Projects Fund is due to expenditures in facilities projects including the main electric switchgear replacement and electronic key access control system.

The increase in the County School Facilities Fund is due to interest income.

**Metropolitan Education District**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

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**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 revenues and other financing sources to exceed expenditures and other financing uses by \$313,421. However, actual revenues and other financing sources exceeded expenditures and other financing uses by \$1,081,193. 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 2015-16 fiscal year.
- Changes in personnel-driven expenditures, including salaries and benefits.
- Carryover of grant monies.
- Adjustments to interfund transfer amounts and estimates of local revenues.

**CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION**

**Capital Assets**

The District invested \$260,102 in capital assets including buildings, site improvements, and equipment during 2015-16.

June 30	Governmental Activities		Percentage
	2015	2016	Change 2015-16
Land	\$ 9,683,028	\$ 9,683,028	0.0%
Buildings	38,258,056	38,434,495	0.5%
Site improvements	2,078,640	2,101,130	1.1%
Equipment	4,185,249	4,246,422	1.5%
<b>Total Capital Assets</b>	<b>\$ 54,204,973</b>	<b>\$ 54,465,075</b>	<b>0.5%</b>



**Metropolitan Education District**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Continued)

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**Long-Term Debt**

At year end, the District had \$11,119,379 in outstanding long-term debt. Outstanding long-term debt decreased by 10.4% 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 2016-17.

June 30	Governmental Activities		Percentage
	2015	2016	Change 2015-16
Compensated absences	\$ 178,200	\$ 199,521	12.0%
Net OPEB obligation	950,713	1,099,364	15.6%
Qualified Zone Academy Bonds	1,000,000	1,000,000	0.0%
Early retirement incentives	913,338	685,003	-25.0%
Net pension liability	9,364,821	8,135,491	-13.1%
<b>Total Long-Term Debt</b>	<b>\$ 12,407,072</b>	<b>\$ 11,119,379</b>	<b>-10.4%</b>

**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, 2016	Governmental Activities
<b>ASSETS</b>	
Cash and investments	\$ 15,507,953
Accounts receivable	132,011
Due from other governments	670,061
Prepaid expenses	85,747
Restricted cash and investments	895,763
Nondepreciated capital assets	9,683,028
Depreciated capital assets	44,782,047
Accumulated depreciation	(20,679,147)
<b>TOTAL ASSETS</b>	<b>51,077,463</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources for pensions	1,207,843
<b>LIABILITIES</b>	
Accounts payable and other current liabilities	657,685
Due to other governments	415,341
Advances from grantors	1,900,816
Long-term obligations:	
Due within one year	228,334
Due beyond one year	10,891,045
<b>TOTAL LIABILITIES</b>	<b>14,093,221</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources for pensions	2,131,777
<b>NET POSITION</b>	
Net investment in capital assets	32,785,928
Restricted for capital projects	2,130,111
Restricted for educational programs	735,763
Unrestricted	408,506
<b>TOTAL NET POSITION</b>	<b>\$ 36,060,308</b>

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

**Metropolitan Education District**  
STATEMENT OF ACTIVITIES

Year Ended June 30, 2016	Expenses	Program Revenues - Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position - Governmental Activities
<b>FUNCTIONS/PROGRAMS</b>			
<b>Primary Government</b>			
Governmental activities:			
Instruction	\$ 7,193,360	\$ 1,555,167	\$ (5,638,193)
Instruction-related services	5,506,961	2,245,783	(3,261,178)
Pupil services	983,501	11,709	(971,792)
Plant services	1,712,316	608	(1,711,708)
General administration	806,637	1,678	(804,959)
Other outgo	1,335,265	-	(1,335,265)
Interest on long-term debt	19,500	-	(19,500)
<b>Total Governmental Activities</b>	<b>\$ 17,557,540</b>	<b>\$ 3,814,945</b>	<b>(13,742,595)</b>
<b>GENERAL REVENUES</b>			
Federal and state aid not restricted to specific purposes			72,791
Unrestricted investment earnings			133,419
Interagency revenues			14,675,445
Miscellaneous			1,173,735
<b>TOTAL GENERAL REVENUES</b>			<b>16,055,390</b>
<b>Change in Net Position</b>			<b>2,312,795</b>
<b>Net Position - Beginning of Year</b>			<b>33,747,513</b>
<b>Net Position - End of Year</b>			<b>\$ 36,060,308</b>

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

**Metropolitan Education District**  
BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2016	General Fund	Adult Education Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 11,400,418	\$ 1,074,491	\$ 1,726,074	\$ 1,306,970	\$ 15,507,953
Accounts receivable	108,456	17,418	3,429	2,708	132,011
Due from other governments	207,777	462,284	-	-	670,061
Due from other funds	11,886	3,255	-	-	15,141
Prepaid expenditures	17,700	68,047	-	-	85,747
Restricted cash and investments	-	-	-	895,763	895,763
<b>TOTAL ASSETS</b>	<b>\$ 11,746,237</b>	<b>\$ 1,625,495</b>	<b>\$ 1,729,503</b>	<b>\$ 2,205,441</b>	<b>\$ 17,306,676</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable and other current liabilities	\$ 425,805	\$ 58,228	\$ 111,928	\$ 61,724	\$ 657,685
Due to other governments	415,341	-	-	-	415,341
Due to other funds	3,255	11,886	-	-	15,141
Advances from grantors	1,899,983	833	-	-	1,900,816
<b>Total Liabilities</b>	<b>2,744,384</b>	<b>70,947</b>	<b>111,928</b>	<b>61,724</b>	<b>2,988,983</b>
<b>Fund Balances</b>					
Nonspendable	37,700	68,047	-	-	105,747
Restricted	608,699	127,064	1,617,575	512,536	2,865,874
Committed	-	1,181,632	-	189,497	1,371,129
Assigned	5,294,202	177,805	-	1,441,684	6,913,691
Unassigned	3,061,252	-	-	-	3,061,252
<b>Total Fund Balances</b>	<b>9,001,853</b>	<b>1,554,548</b>	<b>1,617,575</b>	<b>2,143,717</b>	<b>14,317,693</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,746,237</b>	<b>\$ 1,625,495</b>	<b>\$ 1,729,503</b>	<b>\$ 2,205,441</b>	<b>\$ 17,306,676</b>

*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, 2016

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<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 14,317,693</b>
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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	\$ 54,465,075
Accumulated depreciation	(20,679,147)

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<b>Total Capital Assets - Net</b>	<b>33,785,928</b>
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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	8,135,491
Net OPEB obligation	1,099,364
Compensated absences	199,521
Early retirement incentives	685,003
Qualified Zone Academy Bonds	1,000,000

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<b>Total Long-Term Liabilities</b>	<b>(11,119,379)</b>
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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 position, deferred outflows and inflows of resources relating to pensions are reported:

Deferred outflows of resources relating to pensions	1,207,843
Deferred inflows of resources relating to pensions	(2,131,777)

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<b>Total Net Position - Governmental Activities</b>	<b>\$ 36,060,308</b>
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*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, 2016	General Fund	Adult Education Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Other state revenue	\$ 1,497,940	\$ 761,457	\$ -	\$ -	\$ 2,259,397
Federal revenue	17,278	421,733	-	-	439,011
Other local revenue	14,343,937	2,869,648	204,455	51,666	17,469,706
<b>Total Revenues</b>	<b>15,859,155</b>	<b>4,052,838</b>	<b>204,455</b>	<b>51,666</b>	<b>20,168,114</b>
<b>Expenditures</b>					
Current:					
Instruction	5,033,887	1,047,050	-	-	6,080,937
Instruction-related services	4,540,456	2,125,745	-	-	6,666,201
Pupil services	976,162	15,982	-	-	992,144
General administration	1,089,562	-	-	-	1,089,562
Plant services	1,788,664	365,988	187	3,883	2,158,722
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	15,716	1,327	-	192,293	209,336
<b>Total Expenditures</b>	<b>14,777,962</b>	<b>3,556,092</b>	<b>187</b>	<b>217,426</b>	<b>18,551,667</b>
<b>Net Change in Fund Balances</b>	<b>1,081,193</b>	<b>496,746</b>	<b>204,268</b>	<b>(165,760)</b>	<b>1,616,447</b>
<b>Fund Balances - Beginning of Year</b>	<b>7,920,660</b>	<b>1,057,802</b>	<b>1,413,307</b>	<b>2,309,477</b>	<b>12,701,246</b>
<b>Fund Balances - End of Year</b>	<b>\$ 9,001,853</b>	<b>\$ 1,554,548</b>	<b>\$ 1,617,575</b>	<b>\$ 2,143,717</b>	<b>\$ 14,317,693</b>

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

Year Ended June 30, 2016

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>1,616,447</b>
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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	\$	260,102
Depreciation expense		(1,625,565)

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<b>Net Capital Outlay</b>		<b>(1,365,463)</b>
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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:

(21,321)

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:

2,003,448

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:

(148,651)

Other liabilities not normally liquidated with current financial resources: In the government-wide financial statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for early retirement incentives were:

228,335

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<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>2,312,795</b>
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*The accompanying notes are an integral part of these financial statements.*



# Metropolitan Education District

## STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

June 30, 2016	Agency	
<b>ASSETS</b>		
Cash and investments	\$	365,997
Accounts receivable		720
<b>TOTAL ASSETS</b>	\$	366,717
<b>LIABILITIES</b>		
Due to student groups	\$	366,717

*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 Statement No. 72*** The District adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, for the fiscal year ended June 30, 2016. This statement improves 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. As a result, assets subject to fair value measurement have been reported in accordance with the guidance of this statement.

**Financial Reporting Entity**

The 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 School 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 the 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.

# Metropolitan Education District

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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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, that are restricted or committed for adult education programs (*California Education Code*, Sections 52616[b] and 52501.5[a]).
2. Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes. Expenditures in this fund are used for major repairs or replacements of plumbing, heating, air-conditioning, electrical, roofing, and floor systems; and exterior and interior painting of school buildings.

# Metropolitan Education District

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**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 Schools 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

#### Nonmajor Governmental Funds:

- Deferred Maintenance Fund
- County Schools Facilities Fund
- Special Reserve Capital Projects 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.

# Metropolitan Education District

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**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 governmental 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.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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.

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 (the County) 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, 2016, the fair value of the County pool is 100.31% 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, 2016, and there was no significant unrealized gain or loss on investments held at June 30, 2016.

**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.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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, 2016. 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, 2016. At June 30, 2016, 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	20-30
Site improvements	5-30
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.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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. 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.

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.

Changes in proportion and differences between District contributions and proportionate share of pension contributions, the District's proportionate share of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and the differences between the District's expected and actual experience are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over the estimated service lives of the pension plan participants.



**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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.

# **Metropolitan Education District**

## **NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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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.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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, 2016	Maturities	Fair Value
Deposits (1)		\$ 63,607
<b>Investments That Are Not Securities (2)</b>		
County treasurer's investment pool	14.4 months average	15,810,343
<b>Total Cash and Investments</b>		15,873,950
Less: Agency fund cash and investments		365,997
<b>Total Cash and Investments Per Government-Wide Statement of Net Position</b>		<b>\$ 15,507,953</b>

(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, 2016	Maturity Date	Fair Value
<b>Investments That Are Not Securities (1)</b>		
Guaranteed investment contract	12/22/2020	\$ 895,763

(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.

### **Fair Value Measurements**

The District categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2016:

- County treasurer’s investment pool of \$15,810,343 is valued using quoted prices for similar instruments in active market and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).
- Guaranteed investment contract of \$895,763 is valued at contract value. The contract issuer is contractually obligated to repay the principal and interest at a specified interest rate that is guaranteed to the District (level 3 inputs).

### **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.

**Metropolitan Education District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following:

June 30, 2016	General Fund	Adult Education Fund	Building Fund	Other Governmental Funds
Interest	\$ 22,240	\$ 2,041	\$ 3,429	\$ 2,708
Other	86,216	15,377	-	-
<b>Total</b>	<b>\$ 108,456</b>	<b>\$ 17,418</b>	<b>\$ 3,429</b>	<b>\$ 2,708</b>

**4. DUE FROM OTHER GOVERNMENTS**

Due from other governments consisted of the following:

June 30, 2016	General Fund	Adult Education Fund
<b>Due From</b>		
Federal government	\$ -	\$ 413,035
Local governments	207,777	49,249
<b>Total</b>	<b>\$ 207,777</b>	<b>\$ 462,284</b>

**5. INTERFUND BALANCES**

**Interfund Receivables/Payables**

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

Interfund Receivable	Interfund Payable	Amounts
General	Adult Education	\$ 11,886
Adult Education	General	3,255
<b>Total</b>		<b>\$ 15,141</b>

The specific purposes of the interfund balances are as follows:

To reimburse the General Fund for 2015-16 expenditures incurred by the Adult Education Fund and disbursed from the General Fund.

To reimburse the Adult Education Fund for 2015-16 expenditures incurred by the General Fund and disbursed from the Adult Education Fund.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**6. CAPITAL ASSETS**

Capital assets activity is as follows:

Year Ended June 30, 2016	Beginning Balance	Additions	Deductions	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Nondepreciated Capital Assets</b>				
Land	\$ 9,683,028	\$ -	\$ -	\$ 9,683,028
<b>Depreciated Capital Assets</b>				
Buildings	38,258,056	176,439	-	38,434,495
Site improvements	2,078,640	22,490	-	2,101,130
Equipment	4,185,249	61,173	-	4,246,422
<b>Total Depreciated Capital Assets</b>	<b>44,521,945</b>	<b>260,102</b>	<b>-</b>	<b>44,782,047</b>
<b>Totals at Historical Cost</b>	<b>54,204,973</b>	<b>260,102</b>	<b>-</b>	<b>54,465,075</b>
<b>Less: Accumulated Depreciation</b>				
Buildings	15,569,698	1,247,925	-	16,817,623
Site improvements	777,363	104,196	-	881,559
Equipment	2,706,521	273,444	-	2,979,965
<b>Total Accumulated Depreciation</b>	<b>19,053,582</b>	<b>1,625,565</b>	<b>-</b>	<b>20,679,147</b>
<b>Total Depreciated Capital Assets - Net</b>	<b>25,468,363</b>	<b>(1,365,463)</b>	<b>-</b>	<b>24,102,900</b>
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>CAPITAL ASSETS - NET</b>	<b>\$ 35,151,391</b>	<b>\$ (1,365,463)</b>	<b>\$ -</b>	<b>\$ 33,785,928</b>

Depreciation expense was charged to governmental activities as follows:

Year Ended June 30, 2016	
<b>Governmental Activities</b>	
Instruction	\$ 1,608,106
Instruction-related services	14,045
Plant services	3,414
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 1,625,565</b>

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**7. ACCOUNTS PAYABLE**

Accounts payable consisted of the following:

June 30, 2016	General Fund	Adult Education Fund	Building Fund	Other Governmental Funds
Vendors	\$ 395,706	\$ 49,931	\$ 111,928	\$ 61,724
Salaries and benefits	15,054	6,432	-	-
Other	15,045	1,865	-	-
<b>Total</b>	<b>\$ 425,805</b>	<b>\$ 58,228</b>	<b>\$ 111,928</b>	<b>\$ 61,724</b>

**8. DUE TO OTHER GOVERNMENTS**

Due to other governments consisted of the following:

June 30, 2016	General Fund
<b>Due To</b>	
State government	\$ 1,241
Local governments	414,100
<b>Total</b>	<b>\$ 415,341</b>

**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, 2016, is \$895,763. 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, 2015	Redeemed Current Year	Outstanding June 30, 2016
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, 2016, was \$19,500, all of which was charged to expenses.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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

Year Ending June 30	Principal		Interest		Total
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
<b>Total</b>	\$	1,000,000	\$	97,500	\$ 1,097,500

**10. CHANGES IN LONG-TERM DEBT**

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

Year Ended June 30, 2016	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities</b>					
Compensated absences	\$ 178,200	\$ 21,321	\$ -	\$ 199,521	\$ -
Qualified Zone					
Academy Bonds	1,000,000	-	-	1,000,000	-
Early retirement incentives	913,338	-	228,335	685,003	228,334
Net OPEB obligation	950,713	148,651	-	1,099,364	-
Net pension liability	9,364,821	-	1,229,330	8,135,491	-
<b>Total</b>	<b>\$ 12,407,072</b>	<b>\$ 169,972</b>	<b>\$ 1,457,665</b>	<b>\$ 11,119,379</b>	<b>\$ 228,334</b>



**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**11. FUND BALANCES COMPONENTS**

Fund balances are composed of the following:

June 30, 2016	General Fund	Adult Education Fund	Building Fund	Other Governmental Funds
<b>Nonspendable</b>				
Reserved for:				
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -
Prepaid expenditures	17,700	68,047	-	-
<b>Totals Nonspendable</b>	<b>\$ 37,700</b>	<b>\$ 68,047</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Restricted</b>				
Restricted for:				
Capital projects	\$ -	\$ -	\$ 1,617,575	\$ 512,536
Federal and state categoricals	608,699	127,064	-	-
<b>Totals Restricted</b>	<b>\$ 608,699</b>	<b>\$ 127,064</b>	<b>\$ 1,617,575</b>	<b>\$ 512,536</b>
<b>Committed</b>				
Committed for:				
Adult education	\$ -	\$ 1,181,632	\$ -	\$ -
Deferred maintenance	-	-	-	189,497
<b>Totals Committed</b>	<b>\$ -</b>	<b>\$ 1,181,632</b>	<b>\$ -</b>	<b>\$ 189,497</b>
<b>Assigned</b>				
Assigned for:				
Capital projects	\$ -	\$ -	\$ -	\$ 1,441,684
Deferred maintenance	500,000	-	-	-
Required 5% reserve	722,088	177,805	-	-
CalSTRS/CalPERS employer rate increase	639,358	-	-	-
Net OPEB obligation	1,281,144	-	-	-
Technology	300,000	-	-	-
PARS	722,677	-	-	-
Self-insured income protection	50,000	-	-	-
Legal/LEA program/student funds	182,893	-	-	-
JPA reserve	420,000	-	-	-
QZAB loan	125,000	-	-	-
Lottery carryover	351,042	-	-	-
<b>Totals Assigned</b>	<b>\$ 5,294,202</b>	<b>\$ 177,805</b>	<b>\$ -</b>	<b>\$ 1,441,684</b>
<b>Unassigned</b>				
Designated for economic uncertainties	\$ 3,061,252	\$ -	\$ -	\$ -

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**12. LEASES**

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. The ground lease agreement will expire in December 2016, and negotiations are underway to establish rent payments from January 2017 onward.

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
2017	\$ 121,644	\$ 28,878	\$ 92,766

The District has also entered into various operating leases for copiers with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days' written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2017	\$ 47,832
2018	47,832
2019	35,874
<b>Total</b>	<b>\$ 131,538</b>

The District will receive no sublease rental revenues nor pay for any contingent rentals for this equipment. Rent expenditures were \$88,730 for the year ended June 30, 2016.

**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.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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The JPAs arrange for and provide property, liability, workers' compensation, and excess liability 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 any of 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, workers' compensation, and excess liability 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 CalSTRS, and classified employees are members of CalPERS.

**Summary**

**Net Pension Liability** Net pension liability is reported in the accompanying statement of net position as follows:

June 30, 2016

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CalSTRS State Teachers' Retirement Plan	\$	6,029,373
CalPERS School Employer Pool		2,106,118
<b>Total Net Pension Liability</b>	<b>\$</b>	<b>8,135,491</b>

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**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Deferred Outflows of Resources** Deferred outflows of resources are reported in the accompanying statement of net position as follows:

June 30, 2016	CalSTRS	CalPERS	Total
Difference between expected and actual experience	\$ -	\$ 225,768	\$ 225,768
Employer contributions	479,506	502,569	982,075
<b>Total Deferred Outflows of Resources</b>	<b>\$ 479,506</b>	<b>\$ 728,337</b>	<b>\$ 1,207,843</b>

**Deferred Inflows of Resources** Deferred inflows of resources are reported in the accompanying statement of net position as follows:

June 30, 2016	CalSTRS	CalPERS	Total
Net difference between projected and actual earnings on pension plan investments	\$ (548,800)	\$ (135,263)	\$ (684,063)
Changes in proportion and differences between District contributions and proportionate share of contributions	-	(1,092,494)	(1,092,494)
Changes in assumptions	(112,500)	(242,720)	(355,220)
<b>Total Deferred Inflows of Resources</b>	<b>\$ (661,300)</b>	<b>\$ (1,470,477)</b>	<b>\$ (2,131,777)</b>

**Pension Expense** Pension expense is included in the accompanying statement of revenues, expenses, and changes in net position as follows:

Year Ended June 30, 2016

CalSTRS State Teachers' Retirement Plan	\$ 222,100
CalPERS School Employer Pool	(1,243,473)
<b>Total Pension Expense</b>	<b>\$ (1,021,373)</b>

**California State Teachers' Retirement System**

**Plan Description** Certificated employees of the District participate in the 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](http://www.calstrs.com).

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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 detailed in Teachers' Retirement Law. Active plan members of the CalSTRS 2% at 60 formula are required to contribute 9.20% of their salary. Active plan members of the CalSTRS 2% at 62 formula are required to contribute 8.56% of their salary. The required employer contribution rate for fiscal year 2015-16 was 10.73% of annual payroll. State Teachers' Retirement Law also requires the state to contribute 7.391% 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, 2016, were \$479,506.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** At June 30, 2016, 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, 2016

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District's proportionate share of the net pension liability	\$	6,029,373
State's proportionate share of the net pension liability associated with the District		2,328,939
<b>Total</b>	<b>\$</b>	<b>8,358,312</b>

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**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

The District's net pension liability was measured as of June 30, 2015, 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, 2015, 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, 2016, the District's proportion was .010%.

For the year ended June 30, 2016, the District recognized pension expense of \$38,433 and revenue of \$38,433 for support provided by the state. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows Resources</b>	<b>Deferred Inflows Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (548,800)
Change in assumptions	-	(112,500)
District contributions subsequent to the measurement date	479,506	-
<b>Total</b>	<b>\$ 479,506</b>	<b>\$ (661,300)</b>

The \$479,506 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, 2017. 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		
2017	\$	(94,471)
2018		(94,471)
2019		(94,471)
2020		(94,471)
2021		(94,471)
Thereafter		(188,945)
<b>Total</b>	<b>\$</b>	<b>(661,300)</b>

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Actuarial Assumptions** The total pension liability in the June 30, 2014, actuarial valuation for CalSTRS was determined using the following actuarial assumptions and applied to all periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.60%
Interest on accounts	4.50%
Wage growth	3.75%
Consumer price inflation	3.00%
Post-retirement benefit increases	2.00% simple

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, 2014, 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/Liquidity	1%	0.00%
<b>Total</b>	<b>100%</b>	

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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 midyear. 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:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
June 30, 2016			
District's proportionate share of the net pension liability	\$ 9,103,884	\$ 6,029,373	\$ 3,474,206

**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](http://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 2015-16 fiscal year was 11.847%. The District's contributions to CalPERS for the fiscal year ended June 30, 2016, were \$502,569.



**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** At June 30, 2016, the District reported a net pension liability of \$2,106,118 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, 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, actuarially determined. At June 30, 2016, the District's proportion was .0268%.

For the year ended June 30, 2016, the District recognized pension expense of \$(1,243,473). At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows Resources	Deferred Inflows Resources
Difference between expected and actual experience	\$	225,768	\$ -
Net difference between projected and actual earnings on pension plan investments		-	(135,263)
Change in assumptions		-	(242,720)
Changes in proportion and differences between District contributions and proportionate share of contributions		-	(1,092,494)
District contributions subsequent to the measurement date		502,569	-
<b>Total</b>	<b>\$</b>	<b>728,337</b>	<b>\$ (1,470,477)</b>

The \$502,569 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, 2017. 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		
2017	\$	(319,707)
2018		(319,707)
2019		(319,707)
2020		(285,588)
<b>Total</b>	<b>\$</b>	<b>(1,244,709)</b>

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**Actuarial Assumptions** The total pension liability in the June 30, 2014, actuarial valuation for CalPERS was determined using the following actuarial assumptions applied to all periods included in the measurement:

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Valuation date	June 30, 2014
Measurement date	June 30, 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65%

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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, 2014, 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.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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.

Asset Class	Target Allocation	Rate of Return	
		Years 1 - 10	Years 11+
Global equity	51%	5.25%	5.71%
Global debt securities	19%	0.99%	2.43%
Inflation assets	6%	0.45%	3.36%
Private equity	10%	6.83%	6.95%
Real estate	10%	4.50%	5.13%
Infrastructure and forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
<b>Total</b>	<b>100%</b>		

**Discount Rate** The discount rates used to measure the total pension liability was 7.65%. 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. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on the CalPERS website.

**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 7.65%, 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 (6.65%) or one percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
June 30, 2016			
District's proportionate share of the net pension liability	\$ 3,427,882	\$ 2,106,118	\$ 1,006,982

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

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**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 health care 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, 2016, 49 retirees met these eligibility requirements and an estimated 37 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, 2016, 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, 2016		
Annual required contribution	\$	197,405
Interest on net OPEB obligation		38,029
Adjustment to annual required contribution		(54,980)
<b>Annual OPEB Cost</b>		<b>180,454</b>
Contributions		31,803
<b>Change in Net OPEB Obligation</b>		<b>148,651</b>
<b>Net OPEB Obligation - Beginning of Year</b>		<b>950,713</b>
<b>Net OPEB Obligation - End of Year</b>	<b>\$</b>	<b>1,099,364</b>

**Metropolitan Education District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

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, 2014	\$ 186,088	\$ 23,951	12.87%	\$ 796,861
June 30, 2015	\$ 183,196	\$ 29,344	16.02%	\$ 950,713
June 30, 2016	\$ 180,454	\$ 31,803	17.62%	\$ 1,099,364

**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, 2016, 2015, and 2014, were \$228,335, \$228,334, and \$-0-, respectively, for employees who elected early retirement under this plan. Future payments for employees who elected early retirement will be \$685,003. 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 June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. This statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing for those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2016, will have on the District's financial statements, if any.

**Metropolitan Education District**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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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. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB Statement No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. 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.

In March 2016, GASB issued Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, it addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District's management has not yet determined the impact that implementation of these standards, which is required on July 1, 2016, 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, 2016	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Other state revenue	\$ 30,099	\$ 3,019,886	\$ 1,497,940	\$ (1,521,946)
Federal revenue	13,137	17,278	17,278	-
Other local revenue	13,750,693	14,225,567	14,343,937	118,370
<b>Total Revenues</b>	13,793,929	17,262,731	15,859,155	(1,403,576)
<b>Expenditures</b>				
Certificated salaries	3,534,947	3,519,896	3,396,713	123,183
Classified salaries	2,564,150	2,630,748	2,416,213	214,535
Employee benefits	2,645,837	2,661,012	2,890,598	(229,586)
Books and supplies	975,794	1,387,304	1,071,243	316,061
Services and other operating	2,928,636	5,289,049	3,603,199	1,685,850
Capital outlay	23,000	127,786	66,481	61,305
Other outgo	1,333,515	1,333,515	1,333,515	-
<b>Total Expenditures</b>	14,005,879	16,949,310	14,777,962	2,171,348
<b>Net Change in Fund Balances</b>	(211,950)	313,421	1,081,193	767,772
<b>Fund Balances - Beginning of Year</b>	7,920,660	7,920,660	7,920,660	-
<b>Fund Balances - End of Year</b>	\$ 7,708,710	\$ 8,234,081	\$ 9,001,853	\$ 767,772

*See the accompanying notes to this budgetary comparison schedule.*

# Metropolitan Education District

## BUDGETARY COMPARISON SCHEDULE – ADULT EDUCATION FUND

Year Ended June 30, 2016	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Other state revenue	\$ -	\$ 760,028	\$ 761,457	\$ 1,429
Federal revenue	487,835	421,733	421,733	-
Other local revenue	3,301,605	3,258,478	2,869,648	(388,830)
<b>Total Revenues</b>	3,789,440	4,440,239	4,052,838	(387,401)
<b>Expenditures</b>				
Certificated salaries	1,361,744	1,334,676	1,187,455	147,221
Classified salaries	862,581	989,243	815,344	173,899
Employee benefits	1,147,776	1,193,841	924,547	269,294
Books and supplies	119,168	202,102	169,125	32,977
Services and other operating	372,558	584,101	458,294	125,807
Capital outlay	-	-	1,327	(1,327)
<b>Total Expenditures</b>	3,863,827	4,303,963	3,556,092	747,871
<b>Net Change in Fund Balances</b>	(74,387)	136,276	496,746	360,470
<b>Fund Balances - Beginning of Year</b>	1,057,802	1,057,802	1,057,802	-
<b>Fund Balances - End of Year</b>	\$ 983,415	\$ 1,194,078	\$ 1,554,548	\$ 360,470

See the accompanying notes to this budgetary comparison schedule.

# Metropolitan Education District

## NOTES TO THE BUDGETARY COMPARISON SCHEDULES

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### 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:

	General Fund		Adult Education Fund	
June 30, 2016				
Employee benefits	\$	229,586	\$	-
Capital outlay	\$	-	\$	1,327

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		-		-		-
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>\$</b>	<b>1,808,239</b>	<b>\$</b>	<b>716,605</b>	<b>\$</b>	<b>1,566,555</b>
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

Years Ended June 30	2016		2015	
District's proportion of the net pension liability (asset)	0.010%		0.010%	
District's proportionate share of the net pension liability (asset)	\$	6,029,373	\$	5,453,767
State's proportionate share of the net pension liability (asset) associated with the District		2,328,939		2,200,153
<b>Total</b>	\$	8,358,312	\$	7,653,920
District's covered-employee payroll	\$	4,566,509	\$	4,718,149
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		132.03%		115.59%
Plan fiduciary net position as a percentage of the total pension liability		74.00%		77.00%

*See the accompanying note to the required supplementary information.*

## Metropolitan Education District

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

Years Ended June 30	2016		2015	
Contractually required contribution	\$	479,506	\$	405,506
Contributions in relation to the contractually required contribution		(479,506)		(405,506)
<b>Contribution Deficiency (Excess)</b>	\$	-	\$	-
District's covered-employee payroll	\$	4,566,509	\$	4,718,149
Contributions as a percentage of covered-employee payroll		10.50%		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

Years Ended June 30	2016		2015	
District's proportion of the net pension liability (asset)	0.0268%		0.0345%	
District's proportionate share of the net pension liability (asset)	\$	2,106,118	\$	3,911,054
District's covered-employee payroll	\$	4,301,453	\$	3,620,801
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	48.96%		108.02%	
Plan fiduciary net position as a percentage of the total pension liability	79.40%		83.50%	

*See the accompanying note to the required supplementary information.*

## Metropolitan Education District

### SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2016		2015	
Contractually required contribution	\$	502,569	\$	506,324
Contributions in relation to the contractually required contribution		(502,569)		(506,324)
<b>Contribution Deficiency (Excess)</b>	\$	-	\$	-
District's covered-employee payroll	\$	4,301,453	\$	3,620,801
Contributions as a percentage of covered-employee payroll		11.68%		13.98%

*See the accompanying note to the required supplementary information.*



# **Metropolitan Education District**

## **NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION**

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### **CHANGES OF BENEFIT TERMS**

#### **California State Teachers' Retirement System**

There were no significant changes of benefit terms from the June 30, 2013, actuarial valuation.

#### **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**

No changes have occurred to the actuarial assumptions since the CalPERS Board adopted new actuarial assumptions in February 2014. 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.

GASB Statement No. 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for the pension plan administrative expense. The discount rate was changed from 7.50% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015, measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

## **OTHER SUPPLEMENTARY INFORMATION SECTION**

## **Metropolitan Education District**

### **LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE**

June 30, 2016

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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**

<b>Name</b>	<b>Office</b>	<b>Term Expires</b>
Daniel Bobay	President	2016
Jim Canova	Vice President	2017
Teresa Castellanos	Clerk	2016
Matthew Dean	Member	2017
Van Le	Member	2017
Katherine Tseng	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) 2017	2016	2015	2014
<b>General Fund</b>				
Revenues and other financial sources	\$ 13,386,526	\$ 15,859,155	\$ 15,036,646	\$ 15,067,796
Expenditures	13,979,040	14,777,962	13,552,810	14,267,583
Other uses and transfers out	-	-	250,000	228,746
<b>Total Outgo</b>	<b>13,979,040</b>	<b>14,777,962</b>	<b>13,802,810</b>	<b>14,496,329</b>
<b>Change in Fund Balance</b>	<b>(592,514)</b>	<b>1,081,193</b>	<b>1,233,836</b>	<b>571,467</b>
<b>Ending fund balance</b>	<b>\$ 8,409,339</b>	<b>\$ 9,001,853</b>	<b>\$ 7,920,660</b>	<b>\$ 6,686,824</b>
Available reserves	\$ 2,445,199	\$ 3,061,252	\$ 1,782,846	\$ 1,448,715
Designated for economic uncertainties	\$ 2,445,199	\$ 3,061,252	\$ 1,782,846	\$ 1,448,715
Undesignated fund balance	\$ -	\$ -	\$ -	\$ -
Available reserves as a percentage of total outgo	17%	21%	13%	10%
Total long-term debt	\$ 10,891,045	\$ 11,119,379	\$ 12,407,072	\$ 15,583,568
Average daily attendance at P-2	N/A	N/A	7,699 *	7,699 *

*\* Pursuant to SBX3 4, the District was funded on 2007-08 attendance.*

The General Fund balance has increased by \$2,315,029 over the past two years. The fiscal year 2016-17 budget projects a decrease of \$592,514 (6.6%). 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 2016-17 fiscal year. Total long-term debt has decreased by \$4,464,189 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, 2016**

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

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*See the accompanying note to the other supplementary information.*

# **Metropolitan Education District**

## **NOTE TO THE OTHER SUPPLEMENTARY INFORMATION**

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### **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.

## **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, 2016; 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 13, 2016.

***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 Jam, LLP*

December 13, 2016  
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 *2015-16 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, 2016. 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 *2015-16 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 *2015-16 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, 2016	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
Educator effectiveness	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
Unduplicated local control funding formula pupil counts	Not applicable
Local control and accountability plan	Not applicable
Independent study-course based	Not applicable
Immunizations	Not applicable
Charter schools:	
Attendance	Not applicable
Mode of instruction	Not applicable
Nonclassroom-based instruction/independent study for charter schools	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

## **INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

(Continued)

### ***Opinion on State Compliance***

In our opinion, the District complied, in all material respects, with the state compliance requirements referred to above that are applicable to the District for the year ended June 30, 2016.

*KCoe Jam, LLP*

December 13, 2016  
Chico, California

## **FINDINGS AND QUESTIONED COSTS SECTION**

**Metropolitan Education District**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2016

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**SECTION I**  
**SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Is any noncompliance material to financial statements noted?	No

**STATE AWARDS**

Compliance over state programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for state programs:	Unmodified

**Metropolitan Education District**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2016  
(Continued)

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**SECTION II FINDINGS**  
**FINANCIAL STATEMENTS AUDIT**

None.

**SECTION III FINDINGS**  
**FEDERAL AWARDS AUDIT**

None.

**SECTION IV FINDINGS**  
**STATE AWARDS AUDIT**

None.

# **Metropolitan Education District**

## **CORRECTIVE ACTION PLAN**

June 30, 2016

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



**Metropolitan Education District**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2016

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None.