

**METROPOLITAN EDUCATION
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

**METROPOLITAN EDUCATION DISTRICT
OF SANTA CLARA COUNTY
SAN JOSE, CALIFORNIA
JUNE 30, 2009**

GOVERNING BOARD

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Mr. Frank Biehl, East Side	Vice President	2009
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ADMINISTRATION

Paul Hay	Superintendent
Jing Jing Wang	Chief Business Officer

METROPOLITAN EDUCATION DISTRICT

TABLE OF CONTENTS

JUNE 30, 2009

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	19
Fiduciary Funds - Statement of Net Assets	20
Notes to Financial Statements	21

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	43
Major Special Revenue Fund - Adult Education - Budgetary Comparison Schedule	44
Major Special Revenue Fund - Special Reserved-Other Fund - Budgetary Comparison Schedule	45
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	46

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	47
Local Education Agency Organization Structure	48
Schedule of Average Daily Attendance	49
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	50
Schedule of Financial Trends and Analysis	51
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	53
Combining Statement of Fiduciary Funds Net Assets	54
Note to Supplementary Information	55

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	58
Report on State Compliance	60

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	62
Financial Statement Findings	63
Federal Awards Findings and Questioned Costs	64
State Awards Findings and Questioned Costs	65
Summary Schedule of Prior Audit Findings	66

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Metropolitan Education District
San Jose, California

We have audited the accompanying 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, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Metropolitan Education District, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 45 for the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis and budgetary comparison and other postemployment information is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the Combining Statements – Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Thine, Day & Co., LLP

Palo Alto, California
December 9, 2009

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009



Metropolitan Education District

Management's Discussion and Analysis For The Fiscal Year Ended June 30, 2009

PROFILE OF THE DISTRICT

Metropolitan Education District (the District), also referred to as MetroED, is a Joint Powers Agency (JPA) formed by six participating school districts in Santa Clara County to provide career technical and adult education to a diverse population of students and community members. MetroED's Regional Occupational Center and Program, located on a 26 acre site in central San Jose, as well as on 28 high school campuses, serves approximately 30,000 high school juniors, seniors and adults. MetroED's Adult Education program, one of the largest in the state, serves approximately 20,000 adults in both San Jose and Campbell at five main sites and 38 outreach sites. The six participating school 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.

FINANCIAL HIGHLIGHTS

- State Cuts to Primary Funding. MetroED's primary funding comes from the state budget in the form of apportionments designated for Regional Occupational Centers/Programs (ROCPs) and Adult Education. In February 2009 the state adopted a revised budget for 2008-09, which included a fundamental change to the way some categorical programs, including ROCPs and Adult Education, are funded. The new budget revised the method for calculating funding for these programs from a dollar amount (revenue limit) per average daily attendance (ADA) to a fixed amount of the 2007-08 base year, less 15.93% for ROCPs and 15.38% for Adult Education. These reductions amounted to a mid-year cut of \$3.7 million to the District. In anticipation of state budget deficits, the District had been building reserves, and was able to absorb the mid-year cuts without disruption to district operations. For 2009-10, the budget act increased the cuts to ROCP and Adult Education funding from the 2007-08 base year to 20.31% and 19.84%, respectively.
- Categorical Flexibility. In order to provide school districts with maximum flexibility with funding for categorical (restricted) programs, the state identified 39 categorical programs, including ROCP and Adult Education, as being 100% flexible until June 30, 2013. This means that funding from these programs may be used "for any educational purpose," and ROCP and Adult Education programs are no longer required to generate or report average daily attendance in order to receive state funding. The idea behind this provision is to allow school districts, if they so choose, to move these dollars into their general funds to backfill state cuts to their unrestricted funding. These categorical funds have therefore been redefined by the state as being both flexible and unrestricted. This flexibility ends on June 30, 2013, and funding returns to a revenue limit per ADA basis.

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Prior to the adoption of flexibility, funding for MetroED was apportioned to the JPA participating districts, with the ROCP funding required to be passed through to the JPA by both the California Education Code and provisions of the Joint Powers Agreement. Flexibility suspended the pass-through provisions of the Education Code until June 30, 2013. However, the provisions of the Joint Powers Agreement remain in effect and, in order for a participating district to redirect ROCP funding into their general funds, one year's notice of withdrawal from the JPA is required. This does not preclude alternative arrangements based on mutual agreement by the parties. To date, none of the JPA participating districts have notified MetroED of intention to "flex" either ROCP or Adult Education funding.

- State Fiscal Stabilization Funds. During 2008-09, districts received State Fiscal Stabilization Funds (SFSF) for the purpose of restoring cuts to district revenue limits and categorical programs. With one exception, MetroED agreed with its six participating districts that SFSF funds for restoration of cuts to ROCP and Adult Education funding would not be passed through to MetroED. The exception was that SFSF funds for restoration of cuts to funding generated by adults in ROCP programs would be passed through. This amounted to \$528,640. SFSF funds must be spent by September 30, 2011, and are restricted as to their purpose.
- Collective Bargaining. Due to the state financial crisis and its impact on education funding, the District and its three collective bargaining units were unable to come to agreement on open issues during 2008-09. The District has since settled with its American Federation of Teachers (AFT) unit. Bargaining has continued into 2009-10 with the California Teachers Association (CTA) and California School Employees Association (CSEA). The District has continued to fund step, column and longevity increases for its employees, but has made no provision for cost of living increases.
- District Cash Flow Prior to the advent of flexibility, ROCP and Adult Education programs were considered categorical programs and, unlike K-12 general education, did not receive state advance apportionment funding at the beginning of the fiscal year. Funds were apportioned ONLY after the state budget was signed into law, resulting in the district having to rely on temporary reserves to cover vendor payments and employee payrolls. In response to a history of delayed state budgets, the District governing board established policy that District reserves for both the ROCP and Adult Education programs be maintained at no less than 10%, composed of a 4% General Reserve and a 6% Reserve for Economic Uncertainty, to provide sufficient cash for vendor payments and employee wages for a 60-day period. The budget act redefined ROCP and Adult Education funding as unrestricted, thereby including them in the same funding stream as regular K-12 funding. However, in order to address its own cash flow problems, the state legislature approved a number of one-time apportionment deferrals, thereby shifting the cash flow problem onto local school districts. Moreover, the regular monthly apportionment schedule was changed, resulting in a reduction in the beginning of the year advance apportionment. These two events, collectively have placed heavy cash flow demands on all districts, and reinforced the need for the district to continue with its policy of 10% reserves for cash flow.

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

- Reserves for Potential PERS Recapture Liability In 1982-83, the Public Employees Retirement System (PERS) employer contribution rate was reduced from 13.02% to 12.045%. The state was in financial crisis and a state law was passed requiring the recapture of the savings from the PERS rate reduction. This was to have been a one-time reduction of districts' Revenue Limit apportionment. However, this one-time reduction has been a continuous part of the Revenue Limit calculation since 1982-83. State law has been confusing as to whether the PERS recapture applies to ROCPs operating as Joint Powers Authorities (JPAs). Currently, both the California Department of Education and the Department of Finance believe that the PERS offset applies to ROCP JPAs. However, they have not imposed the recapture because of an incorrect Ed Code reference. The matter continues to be unresolved. The MetroED Governing Board has recognized the potential financial liability to the District, and directed that reserves be established for both the General and Adult Education funds sufficient to pay the PERS Reduction recapture retroactive for three years. The PERS reserves for both the General and Adult Education Funds are held in the District Fund 170 "Special Reserve Fund for Other Than Capital Outlay Projects."
- Evaluation of District Effectiveness and Efficiency On April 16, 2008, an Evaluation of the Effectiveness and Efficiency of MetroED's Support Functions report was presented by School Services of California. In this report, School Services of California commented that "Our overall conclusions about the level of efficiency and effectiveness of the support functions were positive." And that they also "found evidence of good management practices and prudent use of resources in nearly every area." There is no "evidence of overstaffing or misapplication of resources." This report also compares its findings with the report previously presented about the district in 2002. Comparing to 2002, MetroED has streamlined administrative and support staff, created savings to programs and increased reserve levels. The report also cited improvement in the District's relationships with collective bargaining units, strategic planning, information sharing and the District's information systems.
- Post Employment Benefits Liability An Other Post-Employment Benefit (OPEB) report was completed by an actuarial firm in the spring of 2008. This report calculated that the District carries a present value of \$2.3 million of accrued liabilities for post-retirement employee benefits. A contribution table has been provided to fulfill the obligations. The District shall continue with pay-as-you-go method until the economy shows signs of improvement before making additional contributions to this category.
- On-Going State Deficits to Education Funding For 2009-10, MetroED is able to absorb the approximate 20% cuts to state revenues with a package of cuts to expenditure budgets and enhancements to local revenues. Given the unraveling of a number of the Governor's budget deficit solutions for 2009-10, and state revenues coming in substantially less than projected, there remains the possibility of mid-year cuts to education funding. Included in the Governor's budget for 2009-10 was \$7-\$8 billion in one-time solutions. Even if these solutions hold up from legal challenges, they are one-time and don't continue into 2010-11. Consequently, since funding for K-14 education in California exceed 40% of the total state budget, it is likely that education will face additional budget cuts for that year as well. To address these potential impacts, the MetroED Board has reserved \$297,251 in the General Fund and \$135,068 in the Adult Education Fund as Contingencies for State Deficits.

METROPOLITAN EDUCATION DISTRICT

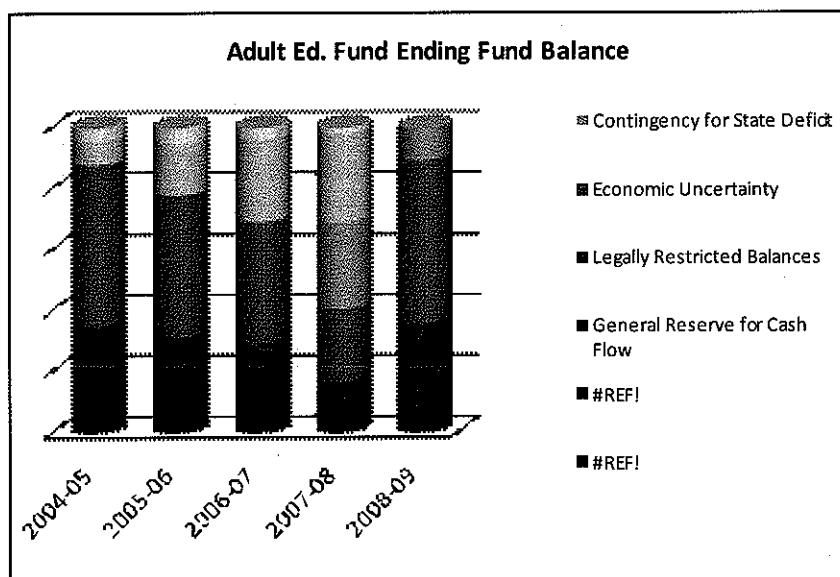
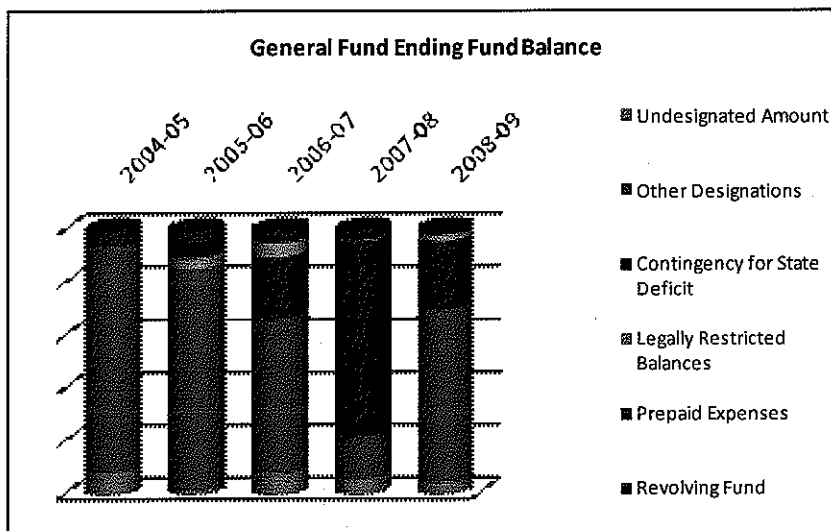
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

2008-2009 RESULTS OF OPERATIONS

The District's General (ROCP) Fund expenditures and other financing uses exceeded revenues and other financing sources by \$377,089, resulting in an ending fund balance total of \$2,691,327. The fund balance includes a General Reserve of \$632,982 (4%) and a reserve Designated for Economic Uncertainties of \$949,472 (6%). The combined reserves of 10% were established as policy by the governing board to provide sufficient reserves for cash flow. Additional governing board fund balance designations include \$20,000 for the revolving cash; \$30,371 for legally restricted for the unspent

portion of the categorical programs; \$297,251 set aside as contingency for potential funding reduction due to the state deficits; \$533,974 for State Fiscal Stability Fund (SFSF) receivable; \$160,000 for the cosmetology contract reserve; and \$67,277 for other program fund balance. There was no undesignated fund balance at the year end.



The District's Adult Education Fund expenditures and other outgo exceeded the revenues and other financing sources by \$1,528,798, resulting in an ending fund balance of \$1,279,931. The fund balance includes a General Reserve of \$457,945 (4%) and a reserve Designated for Economic Uncertainties of \$686,918 (6%). The combined reserves of 10% were established as policy by the governing board to provide sufficient reserves for cash flow. Additional fund balance designation includes \$135,068 for the potential future funding reduction due to State budget deficits. California is in the midst of its most serious recession since

the great depression and the education funding has been hit very hard.

The District Deferred Maintenance fund in the amount of \$147,455 was funded in the 2008-2009 fiscal year which represented 70.268% of the full funding. The District received an additional \$168,385 from the state, for the extreme hardship apportionment of the sanitary sewer replacement project at the Central County Occupational Center (CCOC). After expenditures, the Deferred Maintenance Fund balance increased by \$820,282, leaving an ending fund balance of \$1,235,767. Although the district was provided with the flexibility to use the Deferred Maintenance funding for any educational purposes, the District saved most of the funds in 2008-2009 for the much needed sewer replacement project which began in the summer of 2009 and is projected to be completed in

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

the summer of 2010.

The District Special Reserve Fund for Other Than Capital Outlay Projects is used to account for the accumulation of General Fund money for purposes other than capital outlay. This fund was authorized by the Governing Board in 2006-2007 to reserve mandated cost reimbursements pending audit by the State Controllers' Office (SCO). Also included in this fund are transfers from the General and Adult Education Funds for the PERS recapture liability. For the year, the ending fund balance was \$954,566 of which \$710,620 was designated for PERS Recapture Liability, \$93,946 for the Mandated Cost audit, and \$150,000 as a reserve for the legal fees.

Asset Management Fund. The District Building Fund, otherwise known as the Asset Management Fund, exists primarily to account separately for proceeds from rentals and leases of real property. These proceeds are to be used on the CCOC campus for new programs, upgrading of existing programs and necessary facility upgrades. Revenues include lease payments from the Capital Auto Mall LLC and interest earnings. The lease payments are for leasehold improvements on property located on JPA-owned land on Capitol Expressway, adjacent to the CCOC Hillsdale Avenue campus. For 2008-2009, the fund realized lease and interest income of \$299,154. After expenditures of \$8,798 and the authorized transfer of \$10,820 for administrative costs, the ending fund balance was \$943,675. By governing board policy, this fund must maintain a minimum ending fund balance of \$250,000 for emergencies. The remainder of the ending fund balance was reserved as matching funds for Proposition 1-D equipment grants. Due to the economy-driven loss of a number of sub-leases for the Capital Auto Mall project, MetroEd has agreed to a two-year reduction of 33% in the rent payments due the district from the LLC.

County School Facilities Fund. The District opened the County School Facilities Fund in 2008-2009 to account for apportionments authorized by the State for new school facility construction and modernization projects. The State approved Proposition 1-D projects will be tracked in this fund. The District's matching shares are accounted for in the Asset Management Fund and Special Reserve Fund for Capital Outlay Projects Fund.

Special Reserve for Capital Outlay Fund. The District's Special Reserve for Capital Outlay Fund exists primarily to provide for the accumulation of monies for capital outlay purposes. The fund is divided into three "sub-funds" that allow the District to account separately for funds allocated to the Central County Occupational Center (CCOC), San Jose Adult Education program and Campbell Adult Education program. The following chart summarizes the Capital Outlay Fund activity for 2008-2009:

Capital Outlay Fund 400	CCOC	Adult Ed. San Jose	Adult Ed. Campbell
Beginning Fund Balance	\$8,172,184	\$1,737,575	\$736,139
Sources of Funds:			
Interest Earnings	138,192	40,376	3,981
Transfers-In	1,168,385	200,000	0
Total Sources of Funds	1,306,577	240,376	3,981
Uses of Funds			
Const. Project Expenditures	665,140	379,083	584,401
Transfer to Fund 350	269,203		
Debt Services-QZAB Bond	19,500		
Total Uses of Funds	953,843	379,083	584,401
Increase (Decrease) in Fund Bal.	352,734	(138,707)	(580,420)
Ending Fund Balance	8,524,918	1,598,869	155,719

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

The District has paid Campbell Union High School District \$770,000 as partial payment to cover the costs of a new adult education administrative building and portable classroom at its Del Mar High School campus. \$575,000 was paid from the Capital Outlay Fund and \$195,000 from the Adult Education Fund.

OVERVIEW OF THE FINANCIAL REPORT

This annual report consists of three parts, including the management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statement includes two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide short-term and long-term information about the District's overall financial status.
- The remaining 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 statements.
- The governmental funds statements tell how basic services were financed in the short term as well as what remains for future spending.
- Fiduciary fund 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. Fiduciary fund activity is excluded from the government-wide statements.

The financial statements also include notes that explain some of the information in the 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 general fund budget, both the adopted and final versions, with year-end actuals.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenditures are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health and position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as the condition of school buildings and other facilities.

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. 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 law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like proceeds from the lease of a section of the Hillsdale site to the Capitol Auto Mall Plaza LLC).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow, and (2) the balances left at year-end that are available for spending. Consequently, the government funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds – the District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities' funds. 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. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

	CCOC (ROCP)		MAEP (Adult Education)		
	Revolving	Scholarship	Revolving	Scholarship	Total
Assets					
Cash	\$307,938	\$234,062	\$219,726	\$165,454	\$927,180
Receivable			6,699		6,699
Total	307,938	234,062	219,726	165,454	933,879
Liabilities					
Vendor payables	155		216,743	9,407	226,305
Due to MAEP			9,682	156,047	165,729
Due to CCOC	307,783	234,062			541,845
Total	307,938	234,062	226,425	165,454	933,879

The Revolving accounts (student body accounts) were reviewed in detail in the fiscal year 2009-2010 and several accounts held in the CCOC Revolving and the MAEP Revolving funds were transferred to the District's books in 2009-2010 and will be included in the government-wide financial statements.

METROPOLITAN EDUCATION DISTRICT

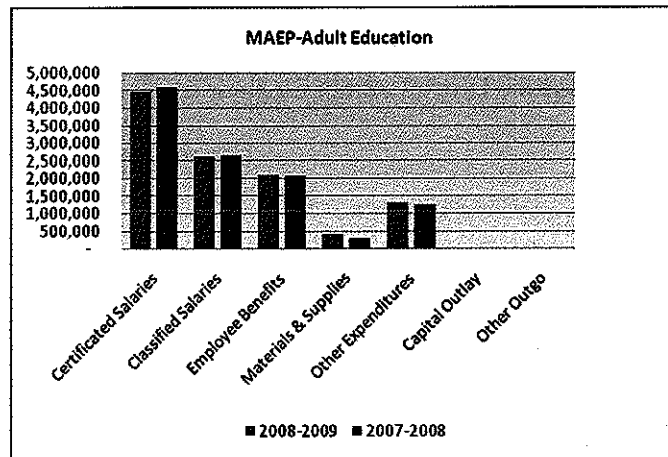
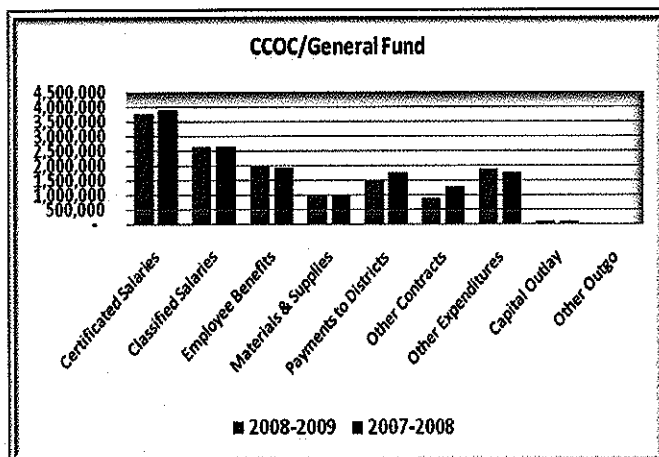
MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Governmental Activities:

The District's net assets decreased from \$35,099,315 to \$34,713,538 at June 30, 2009; a decrease of \$385,777, or 1.10%. The dismal budget perspective caused the district to take measures to tighten the budget and reduced spending in 2008-2009. 5% reduction in cash is mainly caused by the State's deferral of the State apportionments due to the State budget crisis.

	2008-2009	2007-2008
Assets:		
Cash	\$15,453,408	\$16,311,707
Accounts Receivable	4,411,350	4,002,229
Prepaid Expenditures	-0-	31,667
Capital Assets, net of accumulated depreciation	18,668,860	18,284,361
Total Assets	38,533,618	38,629,964
Liabilities		
Other liabilities	2,208,375	2,252,919
Long-term debt outstanding	3,820,080	1,277,730
Total Liabilities	3,333,196	3,530,649
Net Assets:	34,713,538	35,099,315

As is common with virtually all school districts, the majority of expenditures are for salaries and benefits for both CCOC (General Fund) and MAEP (Adult Education Fund).

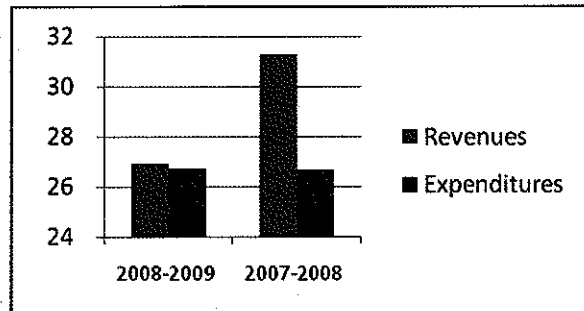


METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE



The District's total revenues decreased from \$31,297,805 to \$26,341,388 at June 30, 2009, a decrease of \$4,956,417 or 15.84%. The revenue reduction was mainly due to the State funding reduction to the District's primary funding sources; 15.93% to ROCP and 15.38% to Adult Education and Deferred Maintenance. Total expenditures increased by only \$64,086 in spite of several construction projects. It is due to the spending and hiring freeze in anticipation of the State budget downturn for 2008-09 and future years.

Comparative Statement of Revenue and Expenses

	2008-2009 FY	2007-2008 FY
<u>Program Revenues:</u>		
Operating Grants & Contributions	\$ 13,629,377	\$ 15,708,094
<u>General Revenues:</u>		
Federal and State Aid not restricted	127,226	-
Interest and investment earnings	412,694	648,887
Interagency revenues	6,856,685	9,962,625
Miscellaneous	5,315,406	4,978,199
Total Revenues	26,341,388	31,297,805
<u>Program Expenses:</u>		
Instruction	12,552,837	12,704,552
Instruction-related services	9,814,288	9,862,211
Pupil services	1,115,155	1,072,307
General administration	6,061	25,735
Plant services	3,203,828	2,963,026
Interest on long-term debt	19,500	19,500
Other outgo	15,496	15,748
Total Expenses	26,727,165	26,663,079
Change in Net Assets	\$ (385,777)	\$ 4,634,726

The District received the State Fiscal Stabilization Funds (SFSF) of \$28,300 for restoration of cuts to the Deferred Maintenance Fund. Additionally, the District was awarded \$528,640 of SFSF funds passed through by Milpitas Unified School District for the ROCP portion of the SFSF funds generated by the adults ADA, and \$5,334 from Santa Clara County Office of Education for the SFSF funds representing restoration of cuts to the Professional Development Block Grant.

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

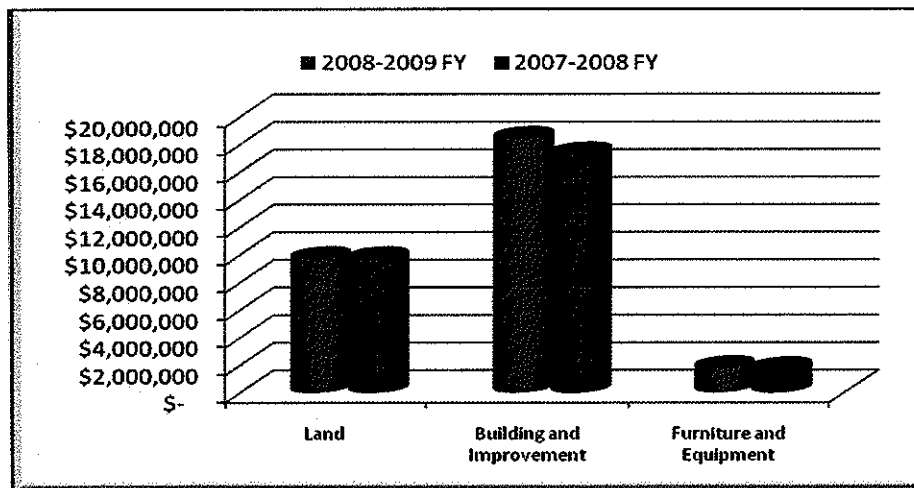
CAPITAL ASSET ADMINISTRATION

The District's capital assets are recorded in the government-wide financial statements at historical cost per generally accepted accounting principles and are being depreciated using the straight-line method over the estimated useful lives.

The total of \$1,185,776 was added to the District's Capital Assets in 2008-2009. A majority of the increases came from the construction of MC Village which is the new adult education center on the Hillsdale campus, and the new Campbell adult education center, which was a collaborative effort between Campbell Union High School District and MetroED. MetroED has been serving the adult education programs for Campbell Union High School District since 1967.

Comparative Statement of Capital Assets

	2008-2009 FY	2007-2008 FY
Land	\$ 9,683,028	\$ 9,683,028
Construction in Progress	1,098,088	50,004
Building and Improvement	17,311,481	17,243,704
Furniture and Equipment	1,773,672	1,703,757
Subtotals	29,866,269	28,680,493
Less: Accumulated Depreciation		
Buildings	(10,470,037)	(9,774,200)
Equipment	(727,372)	(621,932)
Subtotals	(11,197,409)	(10,396,132)
Capital Assets, Net	\$ 18,668,860	\$ 18,284,361



Other increases came from the beginning stage of various Proposition 1-D projects for the Central County Occupational Center (CCOC). The State approved Proposition 1-D facilities grants are in the works to modernize the aged buildings (40 year-old) in order to be compliant with fire and ADA requirements, to improve the classroom safety, to reconfigure the programs, and to upgrade the instructional equipment.

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

LONG TERM DEBT ADMINISTRATION

The District had long-term debts outstanding in the amount of \$1,611,705, an increase of \$333,975 or 26% over the prior year. The increase is mainly due to the inclusion of the post employment benefit obligation which the District implemented GASB No. 45 in 2008-2009. In 2008-2009, the District's unused vacation liability increased by \$49,445, an 18% increase over the prior year. More detailed information about the District's long-term liabilities is presented in Notes to Basic Financial Statements, Long-Term Liabilities section.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The 2009-2010 adopted budget included employee salary increases for step, column and longevity changes, a 5.00% increase to the employer's contribution to the employees' health and welfare plans. 4% salary reduction of all bargaining units was also included, however, will be restored in the First Interim Report.
- 2008-2009 was the third year for implementing a four-year CCOC funding equalization plan. In the original plan, we projected ROCP growth ADA to be about 95 ADA per year for 4 years. The revenue limit from the growth ADA, nearly \$3 million, was to be used to help fund equalization between the JPA participating districts. However, with new information received from the state, there is virtually no growth ADA for 2006-07 and 2007-08, and all funding based on ROCP ADA has been suspended for five years commencing 2008-09. Since the mechanism (ADA Growth) for funding this equalization plan is no longer viable, the MetroED Governing Board adopted a new funding model for 2009-10 that provides \$309,000 additional support for the ROP programs on the JPA participating district high school campuses. Equalization has been suspended during this period of categorical flexibility.
- Although our District has set aside reserves in preparation of additional cuts to education, the administration remains concerned about the depth of the expected cuts, and has taken a conservative approach to expenditures and on-going obligations.
- The District needs and appreciates the on-going support provided by six participating districts.

REGARDING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to assist interested parties in understanding the District's sources and uses of resources. If you have questions about this report or need additional financial information, please contact Dan Gilbertson, Interim Chief Business Official, Metropolitan Education District, 760 Hillsdale Avenue, Building 400, San Jose, CA 95136.

METROPOLITAN EDUCATION DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities
ASSETS	
Deposits and investments	\$ 15,453,408
Receivables	4,411,350
Capital assets not depreciated	10,781,116
Capital assets, net of accumulated depreciation	7,887,744
Total Assets	38,533,618
LIABILITIES	
Accounts payable	2,157,905
Deferred revenue	50,470
Noncurrent portion of long-term obligations	1,611,705
Total Liabilities	3,820,080
NET ASSETS	
Invested in capital assets, net of related debt	18,427,698
Restricted for:	
Legally restricted	2,146,495
Capital projects	10,735,954
Special revenues	1,235,767
Unrestricted	2,167,624
Total Net Assets	\$ 34,713,538

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

METROPOLITAN EDUCATION DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
			Governmental Activities
Governmental Activities:			
Instruction	\$ 12,552,837	\$ 6,561,832	\$ (5,991,005)
Instruction-related activities:			
Supervision of instruction	4,862,557	2,486,510	(2,376,047)
School site administration	4,951,731	2,005,293	(2,946,438)
Pupil services:			
Home-to-school transportation	760,928	693,641	(67,287)
Food services	214,097	146,110	(67,987)
All other pupil services	140,130	74,342	(65,788)
General administration:			
All other general administration	6,061	5,959	(102)
Plant services	3,203,828	1,640,194	(1,563,634)
Interest on long-term obligations	19,500	-	(19,500)
Other outgo	15,496	15,496	-
Total Governmental Activities	<u>\$ 26,727,165</u>	<u>\$ 13,629,377</u>	<u>(13,097,788)</u>
General revenues and subventions:			
Federal and State aid not restricted to specific purposes			127,226
Interest and investment earnings			412,694
Interagency revenues			6,856,685
Miscellaneous			5,315,406
Subtotal, General Revenues			<u>12,712,011</u>
Change in Net Assets			<u>(385,777)</u>
Net Assets - Beginning			35,099,315
Net Assets - Ending			<u>\$ 34,713,538</u>

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

METROPOLITAN EDUCATION DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2009

	General Fund	Adult Education Fund	Special Reserve Other Fund
ASSETS			
Deposits and investments	\$ 1,121,651	\$ 926,175	\$ 1,452,532
Receivables	3,056,948	1,320,844	2,034
Due from other funds	21,407	1,127	-
Total Assets	\$ 4,200,006	\$ 2,248,146	\$ 1,454,566
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 957,082	\$ 861,101	\$ -
Due to other funds	501,127	107,114	500,000
Deferred revenue	50,470	-	-
Total Liabilities	1,508,679	968,215	500,000
Fund Balances:			
Reserved	1,444,604	457,945	243,946
Unreserved:			
Designated	1,246,723	821,986	710,620
Total Fund Balance	2,691,327	1,279,931	954,566
Total Liabilities and Fund Balances	\$ 4,200,006	\$ 2,248,146	\$ 1,454,566

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

Special Reserve Capital Outlay Fund	Non Major Governmental Funds	Total Governmental Funds
\$ 9,265,560	\$ 2,687,490	\$ 15,453,408
24,944	6,580	4,411,350
1,271,135	-	1,293,669
<u>\$ 10,561,639</u>	<u>\$ 2,694,070</u>	<u>\$ 21,158,427</u>
\$ 282,133	\$ 57,589	\$ 2,157,905
-	185,428	1,293,669
-	-	50,470
<u>282,133</u>	<u>243,017</u>	<u>3,502,044</u>
758,838	-	2,905,333
9,520,668	2,451,053	14,751,050
<u>10,279,506</u>	<u>2,451,053</u>	<u>17,656,383</u>
<u>\$ 10,561,639</u>	<u>\$ 2,694,070</u>	<u>\$ 21,158,427</u>

METROPOLITAN EDUCATION DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2009

Total Fund Balance - Governmental Funds **\$ 17,656,383**

**Amounts Reported for Governmental Activities in the Statement
of Net Assets are Different Because:**

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 29,866,269	
Accumulated depreciation is	<u>(11,197,409)</u>	
Net Capital Assets		18,668,860

Long-term liabilities, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the
governmental funds.

Long-term liabilities at year end consist of:

Net OPEB obligation	284,530	
Compensated absences (vacations)	327,175	
Qualified zone academy bond payable (QAZB)	<u>1,000,000</u>	
Total Long-Term Liabilities		<u>(1,611,705)</u>
Total Net Assets - Governmental Activities		<u>\$ 34,713,538</u>

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

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METROPOLITAN EDUCATION DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Adult Education Fund	Special Reserve Other Fund
REVENUES			
Federal sources	\$ 234,099	\$ 922,377	\$ -
Other State sources	297,127	775,676	-
Other local sources	15,053,893	8,236,267	12,550
Total Revenues	<u>15,585,119</u>	<u>9,934,320</u>	<u>12,550</u>
EXPENDITURES			
Current			
Instruction	6,858,860	4,791,246	-
Instruction-related activities:			
Supervision of instruction	2,400,071	2,418,618	-
School site administration	1,796,466	3,047,778	-
Pupil Services:			
Home-to-school transportation	760,928	-	-
Food services	214,097	-	-
All other pupil services	81,607	58,523	-
General administration:			
All other general administration	6,061	-	-
Plant services	1,740,051	745,353	-
Facility acquisition and construction	27,339	11,250	-
Other outgo	15,496	-	-
Debt service			
Interest and other	-	-	-
Total Expenditures	<u>13,900,976</u>	<u>11,072,768</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,684,143</u>	<u>(1,138,448)</u>	<u>12,550</u>
Other Financing Sources (Uses):			
Transfers in	10,820	161,650	452,000
Transfers out	(2,072,052)	(552,000)	-
Net Financing Sources (Uses)	<u>(2,061,232)</u>	<u>(390,350)</u>	<u>452,000</u>
NET CHANGE IN FUND BALANCES	<u>(377,089)</u>	<u>(1,528,798)</u>	<u>464,550</u>
Fund Balance - Beginning	<u>3,068,416</u>	<u>2,808,729</u>	<u>490,016</u>
Fund Balance - Ending	<u>\$ 2,691,327</u>	<u>\$ 1,279,931</u>	<u>\$ 954,566</u>

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

Special Reserve Capital Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,156,476
-	315,840	1,388,643
182,549	311,010	23,796,269
182,549	626,850	26,341,388
-	-	11,650,106
-	-	4,818,689
-	-	4,844,244
-	-	760,928
-	-	214,097
-	-	140,130
-	-	6,061
589,393	102,110	3,176,907
1,039,230	53,712	1,131,531
-	-	15,496
19,500	-	19,500
1,648,123	155,822	26,777,689
(1,465,574)	471,028	(436,301)
1,368,385	1,079,605	3,072,460
(269,203)	(179,205)	(3,072,460)
1,099,182	900,400	-
(366,392)	1,371,428	(436,301)
10,645,898	1,079,625	18,092,684
\$ 10,279,506	\$ 2,451,053	\$ 17,656,383

METROPOLITAN EDUCATION DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Total Net Change in Fund Balances - Governmental Funds \$ (436,301)
Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for government-wide statements, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which capital outlays exceed depreciation in the period.

Depreciation expense	\$ (801,277)	
Capital outlays	<u>1,185,776</u>	
Net Expense Adjustment		384,499

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used by \$49,445.

(49,445)

In the statement of activities, the unfunded portion of the Annual Required Contribution (ARC) is recorded as an expense, but does not impact the statement of revenues, expenditures and changes in fund balance.

(284,530)

Change in Net Assets of Governmental Activities	<u><u>\$ (385,777)</u></u>
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The accompanying notes are an integral part of these financial statements.

METROPOLITAN EDUCATION DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2009

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 927,180
Receivables	<u>6,699</u>
Total Assets	<u><u>\$ 933,879</u></u>
LIABILITIES	
Accounts payable	\$ 226,305
Due to Metropolitan Adult Education Program	165,729
Due to Central County Occupational Center	<u>541,845</u>
Total Liabilities	<u><u>\$ 933,879</u></u>

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Metropolitan Education District was organized under a Joint Powers Authority by six other local school districts to provide vocational and adult education programs for the high school students and adults in their geographic areas. The six districts are Campbell Union High School District, East Side Union High School District, Los Gatos-Saratoga Joint Union High School District, Milpitas Unified School District, San Jose Unified School District, and Santa Clara Unified School District.

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

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. Regional Occupation Center/Programs (ROC/P) activities are also included in the General Fund. The General Fund balance is available to the District for any purpose provided. It is expended or transferred according to the general laws of California.

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District. Only San Jose Unified and Campbell Union High School Districts participated in the adult program.

Special Reserve-Capital Outlay Fund The Special Reserve - Capital Outlay Fund exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Special Reserve Fund for Other Than Capital Outlay Projects The Special Reserve for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Capital Projects Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund The Building Fund exists primarily to account separately for proceeds from rentals and leases of real property. These proceeds are to be used for new programs, upgrading of existing programs and necessary facility upgrades at the CCOC campus.

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) 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 (*Education Code* Section 17070 et seq.).

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The District maintains only agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for revolving fund activities and scholarship activities for both Central County Occupational Center (CCOC) and Metropolitan Adult Education Program (MAEP).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and 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 are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

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 equivalents also include cash with county treasury balances.

Investments

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures in the benefiting period.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental columns of the statement of net assets.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for general reserve revolving cash accounts, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties and other purposes.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental column of the statement of activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Changes in Accounting Principles

In July 2004, the GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement established standards for the measurement, recognition, and display of OPEB

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

This Statement provided for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District has implemented the provisions of this Statement for the fiscal year ended June 30, 2009. The District had an annual required contribution of \$304,000 for the year ended June 30, 2009, and made a contribution of \$19,470 resulting in an OPEB obligation of \$284,530.

In July 2004, the GASB issued GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans; when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. The District has implemented the provisions of this Statement for the fiscal year ended June 30, 2009.

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles - related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 is effective immediately.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 15,453,408
Fiduciary funds	927,180
Total Deposits and Investments	<u>\$ 16,380,588</u>

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 866,185
Investments	
County Investment Pool	\$ 10,713,632
Local Agency Investment Pool	1,270,987
Investment with fiscal agent	185,068
Other investments	<u>3,344,716</u>
	15,514,403
Total Deposits and Investments	<u>\$ 16,380,588</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the amortized cost, which approximates fair value, provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Investment in the State Investment Pool – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the amortized cost, which approximates fair value, provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of their funds with the Santa Clara County Treasurer Pool.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
Aegon Investment Agreement ¹	\$ 758,838	12/22/20
BNY Hamilton Money Fund Premier	34	07/01/09
County Pool	12,030,760	07/01/09
Local Agency Investment Fund	1,272,721	07/01/09
Schwab Money Market Fund Sweep	1,500,000	07/01/09
Total	<u>\$ 15,562,352</u>	

¹ Exceed maximum maturity of five years

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End	
			AAA	Unrated
Aegon Investment Agreement	\$ 758,838	A	\$ 758,838	\$ -
BNY Hamilton Money Fund Premier	34	A	-	34
County Pool	12,030,760	None	-	12,030,760
Local Agency Investment Fund	1,272,721	None	-	1,272,721
Money Market Mutual Funds	1,500,000	None	-	1,500,000
Total	<u>\$ 15,562,352</u>		<u>\$ 758,838</u>	<u>\$ 14,803,515</u>

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. The District believes it has no significant custodial credit risk exposure.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the total investments of \$15,514,403 the District has custodial credit risk exposure of \$758,838 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 – RECEIVABLES

Receivables at June 30, 2009, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Adult Education Fund	Special Reserve Other Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Federal Government							
Categorical aid	\$ 652,772	\$ 247,794	\$ -	\$ -	\$ -	\$ 900,566	\$ -
State Government							
Apportionment	1,200,157	356,978	-	-	-	1,557,135	-
Categorical aid	740,764	99,997	-	-	-	840,761	-
Lottery	296,996	-	-	-	-	296,996	-
Local Government							
Interest	18,044	-	2,034	23,329	6,580	49,987	-
Other Local Sources	148,215	616,075	-	1,615	-	765,905	6,699
Total	<u>\$ 3,056,948</u>	<u>\$ 1,320,844</u>	<u>\$ 2,034</u>	<u>\$ 24,944</u>	<u>\$ 6,580</u>	<u>\$ 4,411,350</u>	<u>\$ 6,699</u>

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 9,683,028	\$ -	\$ -	\$ 9,683,028
Construction in Progress	50,004	1,048,084	-	1,098,088
Total Capital Assets Not Being Depreciated	9,683,028	1,048,084	-	10,781,116
Capital Assets Being Depreciated:				
Land Improvements	1,414,821	50,647	-	1,465,468
Buildings and Improvements	15,828,883	17,130	-	15,846,013
Furniture and Equipment	1,703,757	69,915	-	1,773,672
Total Capital Assets Being Depreciated	18,947,461	137,692	-	19,085,153
Total Capital Assets	28,630,489	1,185,776	-	29,866,269
Less Accumulated Depreciation:				
Land Improvements	167,847	72,560	-	240,407
Buildings and Improvements	9,606,353	623,277	-	10,229,630
Furniture and Equipment	621,932	105,440	-	727,372
Total Accumulated Depreciation	10,396,132	801,277	-	11,197,409
Governmental Activities Capital Assets, Net	\$ 18,284,361	\$ 384,499	\$ -	\$ 18,668,860

Depreciation expense was charged as a direct expense to Instruction function in the Statement of Activities.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2009, between major funds are as follows:

	Due From			Total
	General Fund	Adult Education Fund	Special Reserve Capital Fund	
Due To General Fund	\$ -	\$ 1,127	\$ 500,000	\$ 501,127
Adult Education Fund	7,114	-	100,000	107,114
Special Reserve Other Fund	-	-	500,000	500,000
Non Major Governmental Funds	14,293	-	171,135	185,428
Total	\$ 21,407	\$ 1,127	\$ 1,271,135	\$ 1,293,669

All balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Operating Transfers

Interfund transfers for the year ended June 30, 2009, consisted of the following:

Transfer Out	Transfer In					Total
	General Fund	Adult Education Fund	Special Reserve Other Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 161,650	\$ 100,000	\$ 1,000,000	\$ 810,402	\$ 2,072,052
Adult Education Fund	-	-	352,000	200,000	-	552,000
Special Reserve - Capital	-	-	-	-	269,203	269,203
Non-Major Governmental funds	10,820	-	-	168,385	-	179,205
Total	<u>\$ 10,820</u>	<u>\$ 161,650</u>	<u>\$ 452,000</u>	<u>\$ 1,368,385</u>	<u>\$ 1,079,605</u>	<u>\$ 3,072,460</u>

The Building Fund transferred to the General Fund for 3% administrative fee.	\$ 10,820
The General Fund transferred to the Adult Education Fund for Pass-Through Lottery.	161,650
Adult Education transferred to Special Reserves Other Fund for PERS and legal reserves.	352,000
The General Fund transferred to Special Reserve Other Fund for maintenance hardship projects.	100,000
The General Fund transferred to Special Reserve Capital Fund for construction projects.	1,000,000
The Adult Education Fund transferred to Special Reserve Capital Fund for the construction contingency of the Metro Center Village project.	200,000
The Deferred Maintenance Fund transferred to Special Reserve Capital Fund for construction contingency hardship.	168,385
The General Fund Transferred to Deferred Maintenance Fund for the sewer repair project.	810,402
The Special Reserve Capital Fund transferred to County School Facilities Fund to move prior year state facilities allowance to a proper fund.	269,203
Total	<u>\$ 3,072,460</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2009, consisted of the following:

	General Fund	Adult Education Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Vendor payables	\$ 662,821	\$ 200,528	\$ 282,133	\$ 57,589	\$ 1,203,071	\$ 226,305
State apportionment	12,218	486,884	-	-	499,102	-
Salaries and benefits	282,043	173,689	-	-	455,732	-
Total	<u>\$ 957,082</u>	<u>\$ 861,101</u>	<u>\$ 282,133</u>	<u>\$ 57,589</u>	<u>\$ 2,157,905</u>	<u>\$ 226,305</u>

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 7 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due in One Year
Accumulated vacation	\$ 277,730	\$ 49,445	\$ -	\$ 327,175	\$ -
Net OPEB obligation	-	304,000	19,470	284,530	-
Qualified zone academy bond	1,000,000	-	-	1,000,000	-
Total	<u>\$ 1,277,730</u>	<u>\$ 353,445</u>	<u>\$ 19,470</u>	<u>\$ 1,611,705</u>	<u>\$ -</u>

The accrued vacation will be paid by the fund for which the employee works when paid. The qualified zone academy bond will be paid by the Special Reserve-Capital fund.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2009, amounted to \$327,175

Qualified Zone Academy Bonds (QZAB)

In December 1, 2005, the District issued Qualified Zone Academy Bonds in the amount of \$1,000,000 at an interest rate of 1.95%. The loan requires the initial cash contribution of \$697,865 to be deposited with the fiscal agent. Interest is payable annually in arrears on December 22. Current balance of deposits in the fiscal agent at June 30, 2009 is \$758,838. Principal will be paid on the matured date of December 22, 2020. The bonds were issued for the purpose of providing monies to finance the modernization project at the CCOC.

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2008. The District's annual required contribution for the year ended June 30, 2009, was \$304,000 and contributions made by the District during the year were \$19,470, which resulted in a net OPEB obligation of \$284,530. See Note 10 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 8 - FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General Fund	Adult Fund	Special Reserve Other Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total
Reserved						
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ 20,000
General reserve	632,982	457,945	-	-	-	1,090,927
Legally restricted	791,622	-	243,946	758,838	-	1,794,406
Total Reserved	<u>1,444,604</u>	<u>457,945</u>	<u>243,946</u>	<u>758,838</u>	<u>-</u>	<u>2,905,333</u>
Unreserved						
Designated						
Economic uncertainties	949,472	686,918	-	-	-	1,636,390
Other designation	297,251	135,068	710,620	9,520,668	2,451,053	13,114,660
Total Designated	<u>1,246,723</u>	<u>821,986</u>	<u>710,620</u>	<u>9,520,668</u>	<u>2,451,053</u>	<u>14,751,050</u>
Total	<u>\$ 2,691,327</u>	<u>\$ 1,279,931</u>	<u>\$ 954,566</u>	<u>\$ 10,279,506</u>	<u>\$ 2,451,053</u>	<u>\$ 17,656,383</u>

NOTE 9 - LEASE REVENUES

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 is unlikely that the District will cancel any of the agreements prior to their expiration date. The rental amount will be adjusted annually by consumer price index. Due to the economy-driven loss of a number of sub-leases for the Capital Auto Mall project, the District has agreed to a two-year reduction of 33% in the rent payments.

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
2010	\$ 250,815	\$ 59,543	\$ 191,272
2011	250,815	59,543	191,272
2012	367,266	87,189	280,077
2013	376,244	89,320	286,924
2014	376,244	89,320	286,924
Total	<u>\$ 1,621,384</u>	<u>\$ 384,915</u>	<u>\$ 1,236,469</u>

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Metropolitan Education District. The Plan provides health and welfare benefits to eligible retirees and their spouses. Membership of the Plan consists of 37 retirees and beneficiaries currently receiving benefits, and 206 active plan members. The plan expenditures (paid-as-you-go) are recorded in the General Fund. Unfunded annual required contribution (net OPEB obligation) is presented in the statement of net assets as a portion of long-term obligation.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the District's bargaining units, and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, the District's bargaining units and the unrepresented groups. For fiscal year 2008-09, the District contributed \$19,470 to the plan, all of which was used for current premiums (approximately 6 percent of current year's annual required contribution). Contributions made by retirees range between \$408 to \$346 per month for retiree-only coverage.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of 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 normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual Required Contribution (ARC)	\$ 304,000
Annual OPEB cost (expense)	19,470
Increase in net OPEB obligation	284,530
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u>\$ 284,530</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 was as follows:

Year Ended June 30, 2009	Annual Required contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 304,000	6%	\$ 284,530

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare 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 following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of implementation, only the current year information is presented.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of 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, 2008, actuarial valuation, the projected unit credit method was used. Healthcare cost trend rates ranged from an initial 8.5 percent to an ultimate rate of 5.5 percent. The UAAL is being amortized at the level dollar method. The remaining amortization period at July 1, 2009, was 29 years. The actuarial value of assets was not determined in this actuarial valuation. At July 1, 2009, the District does not hold any net assets for the plan.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2009, the District contracted with South Bay Area Schools Insurance Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Workers' Compensation

For fiscal year 2009, the District participated in the Santa Clara County Schools Insurance Group, an insurance purchasing pool. The intent of the Santa Clara County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Santa Clara County Schools Insurance Group. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Santa Clara County Schools Insurance Group. Participation in the Santa Clara County Schools Insurance Group is limited to districts that can meet the Santa Clara County Schools Insurance Group selection criteria. The firm of Keenan and Associates provides administrative, cost control, and actuarial services to the JPA.

Coverage provided by the various risk pools for property and liability and worker's compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Santa Clara County Schools Insurance Group	Worker's Compensation	Statutory Limits
Schools Excess Liability Fund	Excess Liabilities	\$ 20,000,000
South Bay Area Schools Insurance Authority	General Liabilities	\$ 4,800,000

Employee Medical Benefits

The District has contracted with the Kaiser Medical Foundation and San Jose Unified School District Foundation Plus to provide employee health benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (CalSTRS) and classified employees are members of the Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Blvd., Sacramento, CA 95826.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$496,663, \$599,517, and \$628,114, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-2009 was 9.428 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$496,663, \$491,377, and \$474,534, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District for General fund and Adult fund. These payments consist of State General Fund contributions to CalSTRS in the amount of \$148,491 and \$176,134 (4.517 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Schedule.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2009.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2009.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Schools Excess Liability Fund (SELF), Santa Clara County Schools Insurance Group (SCCSIG) and the South Bay Area Schools Insurance Authority (SBASIA) public entity risk pools. The District pays an annual premium to the applicable entity for its workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 15 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4) (Chapter 12, Statutes of 2009), 14 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 16 - SUBSEQUENT EVENT

ABX4 3 State Funding Shift

On July 28, 2009, Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009.

The July budget package reduced, on a State-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

In accordance with the requirements of Governmental Accounting Standards Board Statement No. 33, the District has not recorded the revenue and related receivable associated with the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package.

Campbell withdrew adult education program

On December 10, 2009, Campbell Union High School District, one of the six participating school districts, approved to take back the Campbell adult education program, currently administered by the District, effective July 1, 2010. This will result in a reduction of annual revenues of approximately \$2.4 million, and corresponding expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN EDUCATION DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual ¹ (GAAP Basis)	Variances - Favorable (Unfavorable)
	(GAAP Basis)			Final to Actual
	Original	Final		
REVENUES				
Federal sources	\$ -	\$ 205,799	\$ 234,099	\$ 28,300
Other State sources	44,716	181,222	297,127	115,905
Other local sources	15,125,263	16,234,765	15,053,893	(1,180,872)
Total Revenues¹	15,169,979	16,621,786	15,585,119	(1,036,667)
EXPENDITURES				
Current				
Instruction	8,571,998	7,341,012	6,858,860	482,152
Instruction-related activities:				
Supervision of instruction	2,653,334	2,668,394	2,400,071	268,323
School site administration	1,242,951	1,846,032	1,796,466	49,566
Pupil services:				
Home-to-school transportation	769,506	774,832	760,928	13,904
Food services	182,299	210,956	214,097	(3,141)
All other pupil services	68,770	86,976	81,607	5,369
General administration:				
All other general administration	1,815,461	1,917,663	6,061	1,911,602
Plant services	-	4,000	1,740,051	(1,736,051)
Facility acquisition and construction	-	-	27,339	(27,339)
Other outgo	-	15,496	15,496	-
Total Expenditures¹	15,304,319	14,865,361	13,900,976	964,385
Excess (Deficiency) of Revenues Over Expenditures	(134,340)	1,756,425	1,684,143	(72,282)
Other Financing Sources (Uses):				
Transfers in	-	-	10,820	10,820
Transfers out	(314,289)	(2,072,052)	(2,072,052)	-
Net Financing Sources (Uses)	(314,289)	(2,072,052)	(2,061,232)	10,820
NET CHANGE				
IN FUND BALANCES	(448,629)	(315,627)	(377,089)	(61,462)
Fund Balance - Beginning	3,068,416	3,068,416	3,068,416	-
Fund Balance - Ending	\$2,619,787	\$2,752,789	\$ 2,691,327	\$ (61,462)

¹ On behalf payments of \$148,491 are included in the actual state revenues and instruction expenditures, but have not been included in the budget amounts.

METROPOLITAN EDUCATION DISTRICT

MAJOR SPECIAL REVENUE FUND – ADULT EDUCATION BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts			Variances -
	(GAAP Basis)		Actual ¹	Positive
	Original	Final	(GAAP Basis)	(Negative)
				Final
				to Actual
REVENUES				
Federal sources	\$ 860,957	\$ 922,377	\$ 922,377	\$ -
Other State sources	599,542	599,542	775,676	176,134
Other local sources	9,650,372	9,250,717	8,236,267	(1,014,450)
Total Revenues ¹	11,110,871	10,772,636	9,934,320	(838,316)
EXPENDITURES				
Current				
Instruction	5,705,963	5,073,930	4,791,246	282,684
Instruction-related activities:				
Supervision of instruction	2,361,170	2,612,045	2,418,618	193,427
School site administration	2,623,144	3,041,891	3,047,778	(5,887)
Pupil services:				
All other pupil services	69,253	70,900	58,523	12,377
Plant services	492,754	492,754	745,353	(252,599)
Facility acquisition and construction	-	-	11,250	(11,250)
Principal	170,000	20,000	-	20,000
Interest	350,000	290,000	-	290,000
Total Expenditures ¹	11,772,284	11,601,520	11,072,768	528,752
Excess (Deficiency) of Revenues				
Over Expenditures	(661,413)	(828,884)	(1,138,448)	(309,564)
Other Financing Sources (Uses):				
Transfers in	137,335	161,650	161,650	-
Transfers out	-	(552,000)	(552,000)	-
Net Financing Sources (Uses)	137,335	(390,350)	(390,350)	-
NET CHANGE IN FUND BALANCES	(524,078)	(1,219,234)	(1,528,798)	(309,564)
Fund Balance - Beginning	2,808,729	2,808,729	2,808,729	-
Fund Balance - Ending	\$ 2,284,651	\$ 1,589,495	\$ 1,279,931	\$ (309,564)

¹ On behalf payments of \$176,134 are included in the actual state revenues and instructional expenditures, but have not been included in the budget amounts.

METROPOLITAN EDUCATION DISTRICT

MAJOR SPECIAL REVENUE FUND – SPECIAL RESERVED – OTHER FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts (GAAP Basis)		Actual ¹ (GAAP Basis)	Variances - Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Other local sources	\$ 30,000	\$ 12,000	\$ 12,550	\$ 550
Other Financing Sources (Uses):				
Transfers in	-	452,000	452,000	-
Net Change In Fund Balances	30,000	464,000	464,550	550
Fund Balance - Beginning	490,016	490,016	490,016	-
Fund Balance - Ending	\$ 520,016	\$ 954,016	\$ 954,566	\$ 550

METROPOLITAN EDUCATION DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
January 1, 2008	\$ -	\$ 2,390,000	-	\$ 13,547,616	17.64%

SUPPLEMENTARY INFORMATION

METROPOLITAN EDUCATION DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education			
Adult Secondary Education	84.002	13978	\$ 71,163
English Second Language (ESL)	84.002A	14508	429,905
English Literacy and Civics Education	84.002A	14109	398,173
Vocational Education - Carl Perkins Act	84.048	13923	133,630
First Responder Fire Science Career & Technical	84.215K	¹	95,305
Total Expenditures of Federal Awards ²			<u>\$ 1,128,176</u>

¹ Pass-through entity identifying number not available.

² Unspent American Recovery and Reinvestment Act- State Fiscal Stabilization Fund of \$28,300 has been excluded from this schedules.

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2009

ORGANIZATION

The Metropolitan Education District operates two major programs, high school (CCOC) and adult (MAEP).

The high school program began as San Jose Technical High School (1917 – 1958). The school was located on the site of San Jose High School. The school moved two times before becoming a Center on Hillsdale Avenue, where it has been located since 1968. Currently, CCOC serves high school students from 32 high schools within the six school districts. 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.

The adult program probably had its beginnings in about 1870, called “Night School”. Prior to World War I, this was largely an evening high school to permit young adults to make up deficiencies in their earlier education. Currently, the Metropolitan Adult Education Program is still providing educational opportunities and services to equip adults with the knowledge and skills necessary to participate effectively as community members. MAEP is a joint powers agency comprised of six districts, two of the districts, Campbell Union School District and San Jose Unified School District are provided adult education services. The program now serves approximately 25,000 adult students in about 40 locations within the cities of Campbell and San Jose.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Richard Garcia, San Jose	President	2010
Mr. Frank Biehl, East Side	Vice President	2009
Mr. James Canova, Santa Clara	Clerk	2009
Ms. Cynthia Chang, Los Gatos/Saratoga	Member	2010
Ms. Diane Gordon, Campbell	Member	2009
Ms. Marsha Grilli, Milpitas	Member	2010

ADMINISTRATION

Paul Hay	Superintendent
Jing Jing Wang	Chief Business Officer

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2009

	Second Period Report	Annual Report
Mandated Programs:		
Regional Occupational Programs (CCOC/P)	4,003	4,345
Classes for Adults		
Concurrently enrolled	72	80
Not concurrently enrolled	3,112	3,506
Full-time Independent Study	94	103
Total District ADA	7,281	8,034
	Hours of Attendance	
Apprenticeship	106,560	118,972

Schedule of Average Daily Attendance is not required to be audited per flexibility provisions in SBX3 4.

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	General Fund
FUND BALANCE		
Balance, June 30, 2009, Unaudited Actuals	\$ 3,113,340	\$ 1,437,495
Decrease in:		
Accounts receivable	(422,013)	(157,564)
Balance, June 30, 2009, Audited Financial Statement	<u>\$ 2,691,327</u>	<u>\$ 1,279,931</u>

The District recorded the revenue and related receivable associated with its portion of the 2008-09 reverted unallocated, unexpended or un-liquidated categorical program balances identified in the 2009-10 re-appropriation in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No .33, an adjustment to reduce revenue and the related receivable have been included in these financial statements. See Note 16 Subsequent Event Note.

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

	(Budget) 2010 ¹	2009	2008	2007
GENERAL AND ADULT FUND				
Revenues	\$ 24,687,993	\$ 25,519,439	\$ 30,228,709	\$ 29,519,518
Other sources	147,830	172,470	143,679	153,555
Total Revenues and Other Sources	24,835,823	25,691,909	30,372,388	29,673,073
Expenditures	23,827,054	24,973,744	25,493,199	25,937,572
Other uses and transfers out	297,335	2,624,052	3,242,167	2,842,646
Total Expenditures and Other Uses	24,124,389	27,597,796	28,735,366	28,780,218
INCREASE (DECREASE) IN FUND BALANCE	\$ 711,434	\$ (1,905,887)	\$ 1,637,022	\$ 892,855
ENDING FUND BALANCE	\$ 4,682,692	\$ 3,971,258	\$ 5,877,145	\$ 4,240,123
AVAILABLE RESERVES ²	\$ 1,924,505	\$ 2,727,317	\$ 2,972,721	\$ 2,976,878
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	7.98%	10.00%	10.46%	10.47%
LONG-TERM OBLIGATIONS	\$ 1,700,000	\$ 1,611,705	\$ 1,277,730	\$ 1,278,117
K-12 AVERAGE DAILY ATTENDANCE AT P-ANNUAL ⁴	7,699	7,699	7,699	7,551

The General and Adult Fund balance has decreased by \$268,865 over the past two years. The fiscal year 2009-2010 budget projects an increase of \$131,857. For a district this size, the State recommends available reserves of at least 5 percent of total General and Adult Fund expenditures, transfers out, and other uses (total outgo). The Board policy also required the District to designate 6% for economic uncertainties and 4% for general reserve.

The District has incurred an operating surplus in two of the past three years and is expecting an operating increase during the 2009-2010 fiscal year. Total long-term obligations have increased by \$333,588 over the past two years. The increase of long-term obligations was mainly due to implementing GASB 45 Other Post Employment Benefit.

¹ Budget 2010 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances, all funds designated for economic uncertainty and all funds reserved for general reserve within the General Fund and Adult Fund. The ABX4 3 unappropriated categorical accounts receivable of \$579,577 is not included in the available reserves calculation.

³ On-behalf payments of \$324,625, \$328,244, and \$343,902 have been excluded from the calculation of the available reserves percentage for fiscal year ending June 30, 2009, 2008 and 2007.

⁴ The District will be funded by 2007-08 ADA from 2008-09 through 2012-13 per SBX3 4.

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2009

	Deferred Maintenance Fund	Building Fund	County School Facilities Fund	Total Non-Major Governmental Funds
ASSETS				
Deposits and investments	\$ 1,406,602	\$ 1,010,354	\$ 270,534	\$ 2,687,490
Receivables	1,572	3,931	1,077	6,580
Total Assets	<u>\$ 1,408,174</u>	<u>\$ 1,014,285</u>	<u>\$ 271,611</u>	<u>\$ 2,694,070</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 549	\$ 57,040	\$ -	\$ 57,589
Due to other funds	171,858	13,570	-	185,428
Total Liabilities	172,407	70,610	-	243,017
Fund Balances:				
Unreserved:				
Designated	1,235,767	943,675	271,611	2,451,053
Total Liabilities and Fund Balances	<u>\$ 1,408,174</u>	<u>\$ 1,014,285</u>	<u>\$ 271,611</u>	<u>\$ 2,694,070</u>

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

	Deferred Maintenance Fund	Building Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES				
Other state sources	\$ 315,840	\$ -	\$ -	\$ 315,840
Other local sources	9,448	299,154	2,408	311,010
Total Revenues	<u>325,288</u>	<u>299,154</u>	<u>2,408</u>	<u>626,850</u>
EXPENDITURES				
Current				
Plant services	96,061	6,049	-	102,110
Facility acquisition and construction	50,963	2,749	-	53,712
Total Expenditures	<u>147,024</u>	<u>8,798</u>	<u>-</u>	<u>155,822</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>178,264</u>	<u>290,356</u>	<u>2,408</u>	<u>471,028</u>
Other Financing Sources (Uses):				
Transfers in	810,402	-	269,203	1,079,605
Transfers out	(168,385)	(10,820)	-	(179,205)
Net Financing Sources (Uses)	<u>642,017</u>	<u>(10,820)</u>	<u>269,203</u>	<u>900,400</u>
NET CHANGE IN FUND BALANCES	820,281	279,536	271,611	1,371,428
Fund Balance - Beginning	415,486	664,139	-	1,079,625
Fund Balance - Ending	<u>\$ 1,235,767</u>	<u>\$ 943,675</u>	<u>\$ 271,611</u>	<u>\$ 2,451,053</u>

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

COMBINING STATEMENT OF FIDUCIARY FUNDS NET ASSETS JUNE 30, 2009

	CCOC		MAEP		Total
	Revolving	Scholarship	Revolving	Scholarship	
ASSETS					
Deposits and investments	\$ 307,938	\$ 234,062	\$ 219,726	\$ 165,454	\$ 927,180
Receivables	-	-	6,699	-	6,699
Total Assets	<u>\$ 307,938</u>	<u>\$ 234,062</u>	<u>\$ 226,425</u>	<u>\$ 165,454</u>	<u>\$ 933,879</u>
LIABILITIES					
Accounts payable	\$ 155	\$ -	\$ 216,743	\$ 9,407	\$ 226,305
Due to MAEP	-	-	9,682	156,047	165,729
Due to CCOC	307,783	234,062	-	-	541,845
Total Liabilities	<u>\$ 307,938</u>	<u>\$ 234,062</u>	<u>\$ 226,425</u>	<u>\$ 165,454</u>	<u>\$ 933,879</u>

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students and in different programs.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

Fiduciary Funds - Statement of Net Assets

The Fiduciary Funds Combining Statement of Net Assets is included to provide information regarding the individual funds that have been included in the fiduciary Funds Statement of Net Assets.

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INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S 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***

Governing Board
Metropolitan Education District
San Jose, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metropolitan Education District as of and for the year ended June 30, 2009, which collectively comprise Metropolitan Education District's basic financial statements and have issued our report thereon dated December 9, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metropolitan Education District's internal control over financial reporting as a basis for designing our auditing procedures 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 Metropolitan Education District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Metropolitan Education District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metropolitan Education District's financial statements are free of 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*.

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vausinek, Trine, Day & Co., LLP

Palo Alto, California
December 9, 2009



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Metropolitan Education District
San Jose, California

Compliance

We have audited the compliance of Metropolitan Education District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. Metropolitan Education District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Metropolitan Education District's management. Our responsibility is to express an opinion on Metropolitan Education District's compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Metropolitan Education District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Metropolitan Education District's compliance with those requirements.

In our opinion, Metropolitan Education District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Metropolitan Education District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Metropolitan Education District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Metropolitan Education District's internal control over compliance.


A *control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Palo Alto, California
December 9, 2009



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Metropolitan Education District
San Jose, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Metropolitan Education District as of and for the year ended June 30, 2009, and have issued our report thereon dated December 9, 2009. We conducted our audit 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Metropolitan Education District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Metropolitan Education District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Not Applicable
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Adult education	9	Not Applicable ¹
Regional occupational centers and programs	6	Not Applicable ¹
Instructional Time:		
School districts	6	Not Applicable
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable
Instructional Materials:		
General requirements	12	Not Applicable
K-8 only	1	Not Applicable
9-12 only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable

	Procedures in Audit Guide	Procedures Performed
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Not Applicable
School Accountability Report Card	3	Not Applicable
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

¹ This program is not required to be audited per flexibility provisions in SBX3 4.

Based on our review of *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, there is no item required to be tested in the current year. Our audit does not provide a legal determination on Metropolitan Education District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vassinek, Trine, Day & Co., LLP

Palo Alto, California
December 9, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

METROPOLITAN EDUCATION DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.002A</u>	<u>Adult Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>Not applicable</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Not applicable</u>
Type of auditor's report issued on compliance for State programs:	<u>Not applicable</u>

METROPOLITAN EDUCATION DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported

METROPOLITAN EDUCATION DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported

METROPOLITAN EDUCATION DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported

METROPOLITAN EDUCATION DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported