METROPOLITAN EDUCATION DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

METROPOLITAN EDUCATION DISTRICT

TABLE OF CONTENTS
JUNE 30, 2013

FINANCIAL SECTION

This page left blank intentionally.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
Metropolitan Education District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Education District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, 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 from material misstatement.

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

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

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Opinion

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, 2013, and the respective changes in financial position and, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Metropolitan Education District's basic financial statements. The Schedule of Expenditures of Federal Awards as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and the other information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the Metropolitan Education District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metropolitan Education District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 8, 2013

MetroED

Metropolitan Education District

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

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 30 high school campuses, serves approximately 11,500 high school juniors, seniors and adults. During 2012-13, MetroED's Adult Education program served approximately 2,500 adults.

The six participating JPA 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

- JPA Partnering Districts: Funding for MetroED was apportioned to the districts, and passed through to the JPA. The partnering districts and the JPA have Master Business Relationship Agreements that allow the funding pass through. Fifteen months notice of withdrawal from the JPA is required for districts choosing to end their participation. This does not preclude alternative arrangements based on mutual agreement by the parties. Current State law requires a Maintenance of Effort (MOE) for districts participating in a JPA for ROC/Ps through the 2014-15 school year. The only exception is if there was a prior agreement. The District received a notice to withdraw from Los Gatos Saratoga Joint Union High School District on June 19, 2012 which was temporarily suspended by mutual agreement of a differentiated funding formula for the 2013-14 school year. Los Gatos Saratoga Joint Union High School District can withdraw from the JPA effective June 30, 2014, if they choose based upon the prior agreement.

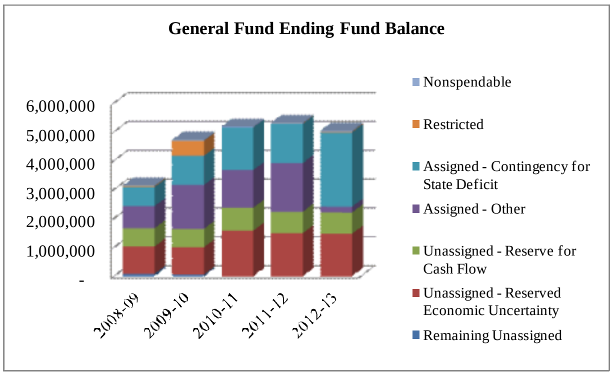
- Flexing of Adult Education Revenues: As for the Adult Education program, the San Jose Unified School District has flexed 2/3 ($3.5 million) of the state Adult Education funding starting in 2011-12, and each year thereafter until flexibility ends. A similar MOE requirement was placed on Adult Education for the 2013-14 and 2014-15 years. The District will retain the Adult Education program at the reduced amount for the two upcoming years.

- District Cash Flow: In response to the state budget crisis, the State has "borrowed" cash from K-12 education by deferring approximately half of the apportionments guaranteed districts by Proposition 98. Since Adult Education, ROC/P, and Deferred Maintenance have been designated as general fund programs during the flexibility period, MetroED is now receiving its funding on the same apportionment schedule as K-12 districts. In November 2010, in order to mitigate the impact of deferrals on District cash flow, the MetroED Governing Board raised the District reserve levels in the General and Adult Education funds from 10% to 15%. This reserve is composed of a 5% General Reserve and 10% Reserve for Economic Uncertainty. The purpose of these reserves is to provide cash flow for vendor payments and employee wages for a 90 day period. The Governing Board has also established a "Contingency for State Deficits" reserve to assist with cash flow as well as planned deficit spending.

- Post Employment Benefits Liability: An Other Post-Employment Benefit (OPEB) actuarial study was updated by an actuarial firm in the summer of 2012. This report calculated that the District carries an actuarial present value of total projected benefits (APVTPB) of $869,713. Of the total projected benefits, $716,605 is the actuarial accrued liabilities as of July 1, 2012, which is projected by the most recent actuarial valuation performed on July 1, 2011. APVTPB is the amount which the District would theoretically need to set aside at this time to fully fund all future benefits for both active and former employees. The District policy is to continue with the "pay-as-you-go" method until the economy shows signs of improvement before making additional contributions to this category.

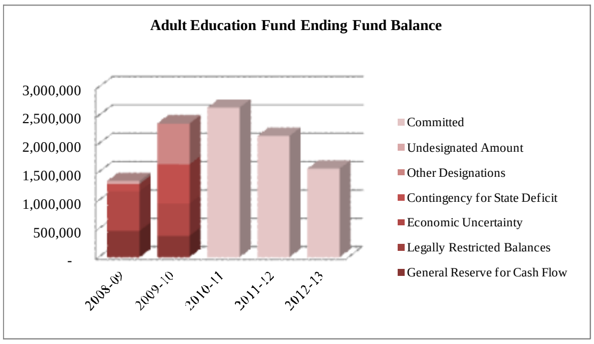
2012-2013 RESULTS OF OPERATIONS

Fund 10: General Fund:
(excluding Fund 170 Special Reserve Fund for Other Than Capital Outlay Projects)



The District's General Fund revenues and transfers-in exceeded expenditures and transfers-out by $488,423, resulting in an ending fund balance total of $5,038,776. Ending fund balance includes non-spendable fund balance of $20,000 for the revolving cash, $15,881 for prepaid expenditure, and $19,255 for legally restricted for the unspent portion of a local categorical grant. The assigned fund balance of $2,773,963 comprised of $194,460 carryover funds of local programs, and $2,579,503 set aside as contingency for potential funding reduction due to the State deficit. The unassigned fund balance is comprised of a reserve for economic uncertainty of $1,473,118 (10%) and $736,559 as additional cash flow reserve (5%), in compliance with the Governing Board's November 2010 policy to provide sufficient reserves for cash flow for 90 days.

Fund 110: Adult Education Fund:



Campbell Union High School District (CUHSD) withdrew its adult education program effective July 1, 2010. Effective with the fiscal year 2011-12, San Jose Unified School District (SJUSD) has flexed $3.5 million, approximately 2/3 of the Adult Education state apportionment, as well. The District's Adult Education Fund expenditures exceeded revenues by $579,735, resulting in an ending fund balance of $1,562,275. Under the flexibility provisions of current statute, this fund is no longer primarily composed of restricted or committed revenue sources. However, the District has taken formal action to commit the flexed revenues to continue the operation of its original programs. In spite of the severe funding reduction, MetroED's Adult Education Programs (MAEP) has served more than 2,500 students in various classes in 2012-2013.

Fund 140: Deferred Maintenance Fund: The Deferred Maintenance Fund is used to account separately for State apportionments and the District's match contribution for major repairs and/or replacements of qualifying District property that has exceeded its useful life. Primary sources of this fund are the State Deferred Maintenance apportionment, interest earnings and District interfund transfers for the District's matches. Expenditures in this fund are intended for major repairs or replacements.

Fund 170: Special Reserve Fund for Other Than Capital Outlay Projects: This special reserve fund is used to account for the accumulation of General Fund money for purposes other than capital outlay. This fund does not meet the GASB statement No. 54 Special Revenue Fund definition. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as extensions of the General Fund, and accordingly has been combined with the General Fund for presentation in the audited basic financial statement. This fund was authorized by the Governing Board in 2006-07. For Fiscal Year 2012-13, the ending fund balance is $821,118, of which $429,750 is reserved for General Fund, $212,564 is reserved for Adult Education, and $178,804 is reserved for repayment to State Controller's Office.

Components of Fund Balance - Special Reserve Fund	2012-2013
General Fund Reserve	$ 429,750
Adult Education Fund Reserve	212,564
Reserve for Repayment to State Controller's Office	178,804
Total Fund Balance	**$ 821,118**

Fund 210: Building (Asset Management) Fund: The District's 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 campus on Hillsdale Avenue. For 2012-2013, the fund realized lease and interest income of $191,382. After expenditures of $196,819, the ending fund balance was $1,141,835. As required by the Joint Powers Agreement, this fund must maintain a minimum ending fund balance of $250,000 for emergencies. The remainder of the ending fund balance was reserved as follows: $50,000 for health and safety emergencies, $200,000 as District match for Proposition 1D equipment grants and $641,835 for future CCOC program upgrades.

Due to the recession-driven loss of a number of sub-leases for the Capital Auto Mall project, MetroED agreed to a two year 33% rent reduction. Since the sub-leases have not been replaced, that reduction was extended for an additional two years, until June 30, 2013.

Fund 350: County School Facilities Fund: The District opened the County School Facilities Fund in 2008-09 to account for apportionments authorized by the State for school facility modernization projects funding by Proposition 1D. The State funding for these projects are tracked in this fund. The primary project was the modernization and equipment for Building 100 (Arts and Media). A total of $2,172,882 was expended from this fund during the year.

Fund 400: 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 two "sub-groups" that allow the District to account separately for funds allocated to the Central County Occupational Center (CCOC) and Adult Education program. The following chart summarizes the Capital Outlay Fund activity for 2012-2013.

Capital Outlay Fund 400	CCOC	Adult Ed
Beginning Fund Balance:	**$ 4,177,204**	**$ 44,959**
Sources of Funds:		
Interest Earnings	51,361	-
Transfers-In	200,000	-
Total Sources of Funds	**251,361**	**-**
Uses of Funds:		
MC Village Improvements	-	40,405
Proposition 1D – Bldg 300	6,347	-
Proposition 1D – Bldg 800	2,444	-
Proposition 1D – Bldg 100	1,179,873	-
Proposition 1D – Bldg 100	214,549	-
Proposition 1D – Bldg 200	2,676	-
Proposition 1D – Bldg 600	324,174	-
Proposition 1D – Bldg 700	285,507	-
Proposition 1D – Bldg 100	2,360	-
Proposition 1D – Bldg 100	391,301	-
General Facilities Management Fees	23,555	-
Debt Services – QZAB Bond	19,500	-
Other Expenditures	354,054	-
Total Uses of Funds	**2,806,344**	**40,405**
Increase (Decrease) in Fund Balance	(2,555,984)	(40,405)
Ending Fund Balance	**$ 1,622,221**	**$ 4,544**

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 position 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 position and how they have changed. Net position - 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 position 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.

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 governmental 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 position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

	CCOC (ROCP) Scholarship	CCOC Student Council	MAEP (Adult Education) Scholarship	Total
Assets:				
Cash	$ 225,331	$ 1,327	$ 159,313	$ 385,971
Accounts receivable	216	-	152	368
Total	**$ 225,547**	**$ 1,327**	**$ 159,465**	**$ 386,339**
Liabilities:				
Accounts payable	$ 15,467	$ -	$ -	$ 15,467
Due to MAEP	-	-	159,465	159,466
Due to CCOC	210,080	1,327	-	211,406
Total	**$ 225,547**	**$ 1,327**	**$ 159,465**	**$ 386,339**

In 2012-2013, Central County Occupational Center (CCOC) awarded a variety of scholarships, a total amount of $11,775 to 132 students. As for Metropolitan Adult Education Program (MAEP), 7 students were awarded $500 each in scholarship for a total of $3,500. MAEP scholarship award is paid upon presentation of receipts and may be used for tuition, textbooks, student body fees, supplies, laboratory charges or other similar expenses. The entire amount of the award must be applied toward an educational program within a three–year period. The actual claims amounted to $1,551.47 for 2012-2013 and $400 for 2011-2012.

Governmental Activities

The District's net position decreased from $47,358,470 to $47,237,316 as of June 30, 2013, a decrease of $121,154 or 0.26% due to Prop 1D modernization and equipment upgrades mostly completed in 2012-13. Accounts receivable remains fairly consistent due to the State's apportionment deferral. Cash has decreased to 42% of the amount at the same time 2011-12. To meet the District's vendor payments and payroll obligations, $2.05 million was borrowed from the Special Reserve, Deferred Maintenance, and Asset Management Funds.

	FY 2012-2013	FY 2011-2012
Assets:		
Cash	$ 4,535,032	$ 10,796,203
Accounts receivable	7,901,833	8,236,757
Prepaid expenses	35,289	35,328
Capital assets, net of accumulated depreciation	37,412,223	32,690,020
Total Assets	**$ 49,884,377**	**$ 51,758,308**
Liabilities:		
Other liabilities	$ 753,345	$ 2,470,096
Long-term debt outstanding	1,893,716	1,929,742
Total Liabilities	**$ 2,647,061**	**$ 4,399,838**
Net position:	**$ 47,237,316**	**$ 47,358,470**

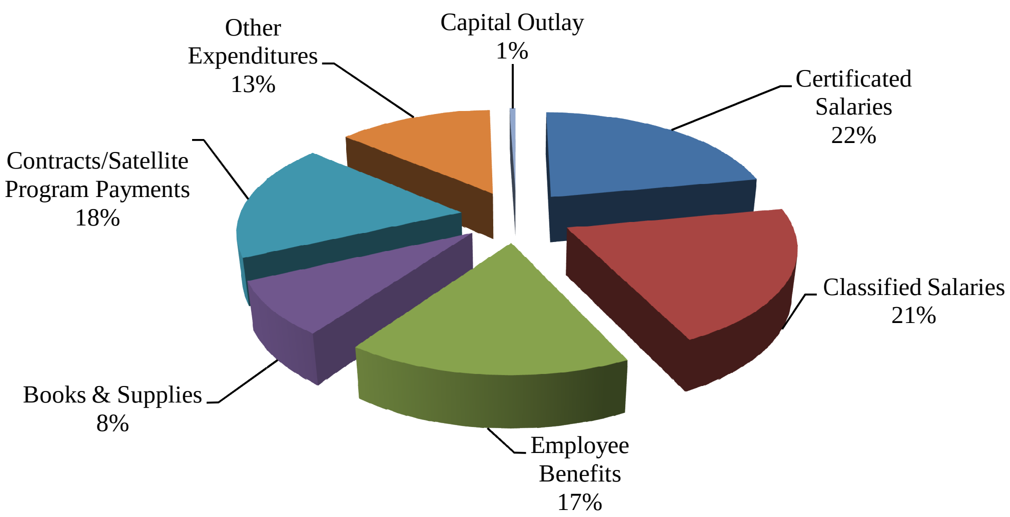
METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

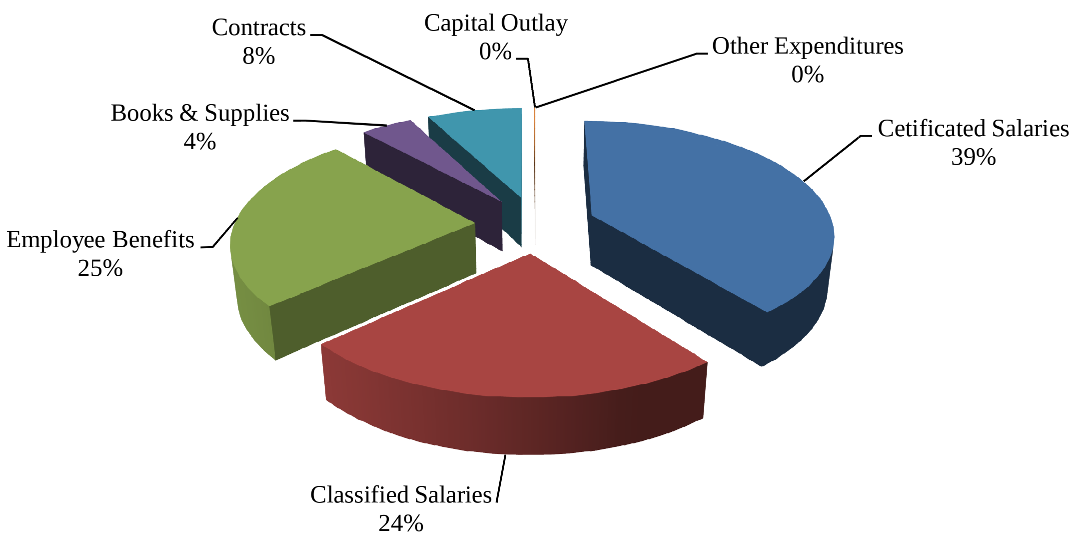
Expenditures

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
General Fund Expenditures FY 2012-13



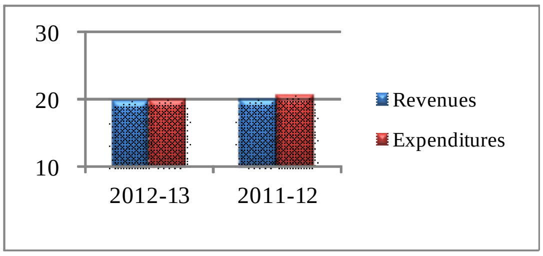
Metropolitan Education District
Adult Fund Expenditures FY 2012-13



METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE



The District's total revenues decreased to $19,750,181 from $19,998,259 on June 30, 2013, a decrease of $248,078 or 1.24%. The revenue decrease was mainly due to the State funding for Proposition 1D modernization projects as well as a reduction of State revenues.

Approximately $5.4 million was spent on Proposition 1D modernization projects and infrastructure improvements for CCOC programs.

Comparative Statement of Activities		
	FY 2012-13	FY 2011-12
Program Revenues:		
Operating Grants & Contributions	$ 1,771,943	$ 2,140,581
Capital Grants and Contributions	-	11,036
General Revenues:		
Federal & State Aid not Restricted	13,436,180	12,961,944
Interest and Investment Earnings	110,211	148,037
Interagency Revenues	2,237,424	2,570,082
Miscellaneous	2,194,423	2,166,579
Total Revenues	**19,750,181**	**19,998,259**
Program Expenses:		
Instruction	8,025,900	7,989,650
Instruction-Related Services	7,041,496	7,180,986
Pupil Services	1,073,234	1,112,867
Plant Services	1,807,247	2,440,492
Interest on Long-Term Dept	21,000	21,000
Other Outgo	1,902,458	1,798,749
Total Expenses	**19,871,335**	**20,543,744**
Change in Net Position	**$ (121,154)**	**$ (545,485)**

The comparative statement of activities presents the costs of the District's expenditures by major activities or services performed - regular instruction, pupil services, plant services, general administration services, interest on long-term debt, and other outgo. The comparative statement of activities may be analyzed by the cost of each function/activities in comparison to the benefits provided by that function/activities.

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. Please refer to Note 4 for more information.

A total of $4,722,203 after depreciation was added to the District's Capital Assets in 2012-2013.

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

- Various Prop 1D projects totaling $6,426,052 were added to the construction-in-progress.
- Building 800 Culinary project was completed for $1,905,068.
- Building 200 Health, Science, and Veterinary Medicine project was completed for $2,756,952.
- Building 600 Transportation Project was completed for $2,807,116.
- Building 500/600 Transportation Equipment was completed for $87,749.

Comparative Schedule of Capital Assets		
	FY 2012-13	**FY 2011-12**
Land, Buildings and Equipment:		
Land	$ 9,683,028	$ 9,683,028
Construction in progress	6,426,052	8,168,736
Building and improvements	33,491,436	25,849,010
Furniture and equipment	4,040,725	3,824,248
Subtotals	**53,641,241**	**47,525,022**
Less: Accumulated Depreciation		
Buildings	(14,060,101)	(12,938,627)
Equipment	(2,168,917)	(1,896,375)
Subtotals	**(16,229,018)**	**(14,835,002)**
Net Capital Assets	**$ 37,412,223**	**$ 32,690,020**

LONG TERM DEBT ADMINISTRATION

The District had long-term debt outstanding in the amount of $1,893,716, a decrease of $36,026 or 1.9% over the prior year. Please refer to Note 8 for more information.

Comparative Schedule of Long-Term Liabilities		
	FY 2012-13	FY 2011-12
Compensated absences	$ 258,992	$ 303,380
Net OPEB obligation	634,724	626,362
Qualified zone academy bond	1,000,000	1,000,000
Total	**$ 1,893,716**	**$ 1,929,742**

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2012-13 adopted budget included employee salary increases for step, column and longevity changes, and a 5% increase of the employer's contribution to the employees' health and welfare plans. Since the District is not receiving increases in State funding, these cost increases are funded from internal sources, primarily from fund balance.

The adopted State Budget for 2013-14 requires a Maintenance of Effort for districts participating in ROC/P JPAs and Adult Education so funding will be static for two years with an uncertain future beyond that.

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 the District's Business Office, Metropolitan Education District, 760 Hillsdale Avenue, Building 6, San Jose, CA 95136.

METROPOLITAN EDUCATION DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
ASSETS	
Deposits and investments	$ 4,535,032
Receivables	7,901,833
Prepaid expenses	35,289
Capital assets not depreciated	16,109,080
Capital assets, net of accumulated depreciation	21,303,143
Total Assets	49,884,377
LIABILITIES	
Accounts payable	732,365
Deferred revenue	20,980
Noncurrent portion of long-term obligations	1,893,716
Total Liabilities	2,647,061
NET POSITION	
Net investment in capital assets	36,412,223
Restricted for:	
Legally restricted	850,738
Capital projects	657,095
Unrestricted	9,317,260
Total Net Position	$ 47,237,316

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

METROPOLITAN EDUCATION DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:			
Instruction	$ 8,025,900	$ 957,783	$ (7,068,117)
Instruction-related activities:			
Supervision of instruction	4,370,201	750,465	(3,619,736)
School site administration	2,671,295	44,428	(2,626,867)
Pupil services:			
Home-to-school transportation	816,218	2,268	(813,950)
Food services	116,547	-	(116,547)
All other pupil services	140,469	-	(140,469)
Plant services	1,807,247	-	(1,807,247)
Interest on long-term obligations	21,000	-	(21,000)
Other outgo	1,902,458	16,999	(1,885,459)
Total Governmental Activities	$ 19,871,335	$ 1,771,943	(18,099,392)
General revenues and subventions:			
Federal and State aid not restricted to specific purposes			13,436,180
Interest and investment earnings			110,211
Interagency revenues			2,237,424
Miscellaneous			2,194,423
Subtotal, General Revenues			17,978,238
Change in Net Position			(121,154)
Net Position - Beginning			47,358,470
Net Position - Ending			$ 47,237,316

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

METROPOLITAN EDUCATION DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

	General Fund	Adult Education Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	$ 864,190	$ 744,387	$ 1,433,956
Receivables	7,043,669	854,580	924
Due from other funds	-	347	250,000
Prepaid expenditures	15,881	19,408	-
Total Assets	$ 7,923,740	$ 1,618,722	$ 1,684,880
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 242,519	$ 56,447	$ 58,105
Due to other funds	1,800,347	-	-
Deferred revenue	20,980	-	-
Total Liabilities	2,063,846	56,447	58,105
Fund Balances:			
Nonspendable	35,881	19,409	-
Restricted	19,255	-	831,483
Committed	-	1,542,866	-
Assigned	3,595,081	-	795,292
Unassigned	2,209,677	-	
Total Fund Balances	5,859,894	1,562,275	1,626,775
Total Liabilities and Fund Balances	$ 7,923,740	$ 1,618,722	$ 1,684,880

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

Non-Major Governmental Funds	Total Governmental Funds
$ 1,492,499	$ 4,535,032
2,660	7,901,833
1,550,000	1,800,347
-	35,289
$ 3,045,159	$ 14,272,501
$ 375,294	$ 732,365
-	1,800,347
-	20,980
375,294	2,553,692
-	55,290
657,095	1,507,833
761,193	2,304,059
1,251,577	5,641,950
-	2,209,677
2,669,865	11,718,809
$ 3,045,159	$ 14,272,501

METROPOLITAN EDUCATION DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balance - Governmental Funds		**$ 11,718,809**
Amounts Reported for Governmental Activities in the Statement of Net Position 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	$ 53,641,241	
Accumulated depreciation is	(16,229,018)	
Net Capital Assets		37,412,223
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	(634,724)	
Compensated absences (vacations)	(258,992)	
Qualified zone academy bond payable (QAZB)	(1,000,000)	
Total Long-Term Liabilities		(1,893,716)
Total Net Position - Governmental Activities		**$ 47,237,316**

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

This page left blank intentionally.

METROPOLITAN EDUCATION DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Adult Education Fund	Special Reserve Capital Fund
REVENUES			
Federal sources	$ 63,318	$ 566,700	$ -
Other state sources	13,191,388	193,034	-
Other local sources	1,983,271	3,160,456	51,361
Total Revenues	15,237,977	3,920,190	51,361
EXPENDITURES			
Current			
Instruction	5,021,663	1,606,886	-
Instruction-related activities:			
Supervision of instruction	2,706,400	1,661,506	-
School site administration	1,892,671	821,586	-
Pupil Services:			
Home-to-school transportation	816,218	-	-
Food services	116,547	-	-
All other pupil services	110,372	30,097	-
Plant services	1,931,540	379,850	-
Facility acquisition and construction	-	-	2,825,749
Other outgo	1,902,458	-	-
Debt service			
Principal	-	-	19,500
Interest and other	-	-	1,500
Total Expenditures	14,497,869	4,499,925	2,846,749
Excess (Deficiency) of Revenues Over Expenditures	740,108	(579,735)	(2,795,388)
Other Financing Sources (Uses):			
Transfers in	2,742	-	200,000
Transfers out	(200,000)	-	-
Net Financing Sources (Uses)	(197,258)	-	200,000
NET CHANGE IN FUND BALANCES	542,850	(579,735)	(2,595,388)
Fund Balance - Beginning	5,317,044	2,142,010	4,222,163
Fund Balance - Ending	$ 5,859,894	$ 1,562,275	$ 1,626,775

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

Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ 630,018
334,028	13,718,450
206,625	5,401,713
540,653	19,750,181
-	6,628,549
-	4,367,906
-	2,714,257
-	816,218
-	116,547
-	140,469
173,126	2,484,516
2,611,895	5,437,644
-	1,902,458
-	19,500
-	1,500
2,785,021	24,629,564
(2,244,368)	(4,879,383)
-	202,742
(2,742)	(202,742)
(2,742)	-
(2,247,110)	(4,879,383)
4,916,975	16,598,192
$ 2,669,865	$ 11,718,809

METROPOLITAN EDUCATION DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Total Net Change in Fund Balances - Governmental Funds		**$ (4,879,383)**
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 position 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.		
Capital outlays	$ 6,116,219	
Depreciation expense	(1,394,016)	
Net Expense Adjustment		4,722,203
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).		44,388
In the statement of activities, the net unfunded portion of the Annual Required Contribution (ARC) is recorded as an expense or reduction of expense, but does not impact the statement of revenues, expenditures and changes in fund balances.		(8,362)
Change in Net Position of Governmental Activities		**$ (121,154)**

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

METROPOLITAN EDUCATION DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Agency Funds
ASSETS	
Deposits and investments	$ 385,970
Receivables	368
Total Assets	$ 386,338
LIABILITIES	
Accounts payable	$ 15,467
Due to Metropolitan Adult Education scholarship program	210,079
Due to Central County Occupational Center scholarship program	159,466
Due to Central County Occupational Center student council	1,327
Total Liabilities	$ 386,339

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

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, 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 are typically financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to funds 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 is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, currently defined as special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of $821,118, $821,118, and $4,427, respectively.

Adult Education Fund The Adult Education Fund is used to account for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

Under the flexibility provisions of current statute, this fund is no longer primarily composed of restricted or committed revenue sources. However, the District has taken formal action to commit the flexed revenues to continue the operation of the original programs. Only San Jose Unified School District participated in the adult education 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).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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.

Under the flexibility provisions of current statute, this fund is no longer primarily composed of restricted or committed revenue sources. However, the District has taken formal action to commit the flexed revenues to continue the operation of the original programs.

Capital Projects Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trusts funds).

Building Fund The Building Fund, also known as Asset Management Fund by the District, 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 lA), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State School Facilities Fund (proposition 1D) 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 funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The District only has the Agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for its adult education and occupational center scholarship program and occupational center student council fund.

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.

Net position 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 position 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.

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 government-wide statements.

Investments

Investments held at June 30, 2013, 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 expenditures 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 position. 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 position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. 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 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 Balances - Governmental Funds

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In 2010-11, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties of ten percent of General Fund expenditures and other financing uses, and additional five percent of General Fund expenditures and other financing uses for cash flow reserve.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, 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 position is 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 position is 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 June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net position.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	$ 4,535,032
Fiduciary funds	385,970
Total Deposits and Investments	$ 4,921,002

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks		$ 53,580
Investments		
County investment pool	$ 4,035,939	
Investment with fiscal agent	831,483	
Total Investment		4,867,422
Total Deposits and Investments		$ 4,921,002

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 the 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.

General Authorizations

Limitations as they relate to interest rate 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

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	Cost	Fair Value	Maturity Date
Aegon Investment Agreement [1]	$ 831,483	$ 831,483	12/22/20
County Pool	4,035,939	4,070,244	374 days
Total	$ 4,867,422	$ 4,901,727	

[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.

		Minimum	S&P Rating as of Year End	
Investment Type	Fair Value	Legal Rating	AA-	Unrated
Aegon Investment Agreement	$ 831,483	A	$ 831,483	$ -
County Pool	4,070,244	None	-	4,070,244
Total	$ 4,901,727		$ 831,483	$ 4,070,244

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. County pool is exempt from custodial risk. $831,483 of the District’s investments are exposed to custodial credit risk because the related securities are unregistered and held by 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, 2013, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Adult Education Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Federal Government						
Categorical aid	$ 40,771	$ 107,343	$ -	$ -	$ 148,114	$ -
State Government						
Apportionment	6,717,635	743,037	-	-	7,460,672	-
Categorical aid	108,983	-	-	-	108,983	-
Lottery	131,683	-	-	-	131,683	-
Local Government						
Interest	1,988	907	924	2,660	6,479	-
Other Local Sources	42,609	3,293	-	-	45,902	368
Total	$ 7,043,669	$ 854,580	$ 924	$ 2,660	$ 7,901,833	$ 368

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 9,683,028	$ -	$ -	$ 9,683,028
Construction in progress	8,168,736	4,690,357	6,433,041	6,426,052
Total Capital Assets Not Being Depreciated	17,851,764	4,690,357	6,433,041	16,109,080
Capital Assets Being Depreciated:				
Land improvements	1,846,863	98,023	-	1,944,886
Buildings and improvements	24,002,147	7,544,403	-	31,546,550
Furniture and equipment	3,824,248	216,477	-	4,040,725
Total Capital Assets Being Depreciated	29,673,258	7,858,903	-	37,532,161
Total Capital Assets	47,525,022	12,549,260	6,433,041	53,641,241
Less Accumulated Depreciation:				
Land improvements	478,476	96,275	-	574,751
Buildings and improvements	12,460,151	1,025,199	-	13,485,350
Furniture and equipment	1,896,375	272,542	-	2,168,917
Total Accumulated Depreciation	14,835,002	1,394,016	-	16,229,018
Governmental Activities Capital Assets, Net	$ 32,690,020	$ 11,155,244	$ 6,433,041	$ 37,412,223

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

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balance resulted from the time lag between the dates that payments between funds are made. All balances at June 30, 2013, between major funds and non-major funds are as follows:

Due To	Due From: Adult Education Fund	Due From: Special Reserve Capital Fund	Due From: Non-Major Governmental Funds	Total
General Fund	$ 347	$ 250,000	$ 1,550,000	$ 1,800,347

Operating Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer Out	Transfer In: General Fund	Transfer In: Special Reserve Capital Fund	Total
General Fund	$ -	$ 200,000	$ 200,000
Non-Major Governmental Funds	2,742	-	2,742
Total	$ 2,742	$ 200,000	$ 202,742

The Deferred Maintenance Fund transferred to General Fund for reimbursement.	$ 2,742
The General Fund transferred to the Special Reserve Fund for construction projects.	200,000
Total	$ 202,742

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Adult Education Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Funds	Fiduciary Fund
Vendor payables	$ 224,059	$ 37,708	$ 58,105	$ 375,294	$ 695,166	$ 15,467
Salaries and benefits	18,460	18,739	-	-	37,199	-
Total	$ 242,519	$ 56,447	$ 58,105	$ 375,294	$ 732,365	$ 15,467

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of $20,980 local programs for General Fund.

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Accumulated vacation	$ 303,380	$ -	$ 44,388	$ 258,992
Net OPEB obligation	626,362	47,723	39,361	634,724
Qualified zone academy bond	1,000,000	-	-	1,000,000
Total	$ 1,929,742	$ 47,723	$ 83,749	$ 1,893,716

The accrued vacation and OPEB obligation 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, 2013, amounted to $258,992.

Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2013, was $63,790, and contributions made by the District during the year were $39,361. Interest on the net OPEB obligation and adjustments to the annual required contribution were $18,791 and -$35,038, respectively, which resulted in an increase to the net OPEB obligation of $8,362. As of June 30, 2013, the net OPEB obligation was $634,724. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

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, 2013 is $831,483. 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.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General	Adult Education	Special Reserve Capital Outlay	Non-Major Governmental	Total
Nonspendable					
Revolving cash	$ 20,000	$ -	$ -	$ -	$ 20,000
Prepaid expenditures	15,881	19,409	-	-	35,290
Total Nonspendable	35,881	19,409	-	-	55,290
Restricted					
Legally restricted	19,255	-	-	-	19,255
QZAB sinking fund	-	-	831,483	-	831,483
Capital projects	-	-	-	657,095	657,095
Total Reserved	19,255	-	831,483	657,095	1,507,833
Committed					
Adult education program	-	1,542,866	-	-	1,542,866
Maintenance program	-	-	-	761,193	761,193
Total Committed	-	1,542,866	-	761,193	2,304,059
Assigned					
Capital projects	-	-	795,292	1,251,577	2,046,869
Site carryover	194,460	-	-	-	194,460
PERS recapture liability	821,118	-	-	-	821,118
State deficit contingency	2,579,503	-	-	-	2,579,503
Total Assigned	3,595,081	-	795,292	1,251,577	5,641,950
Unassigned					
Reserve for Economic uncertainties	1,473,118	-	-	-	1,473,118
Reserve for cash flow	736,559	-	-	-	736,559
Total Unassigned	2,209,677	-	-	-	2,209,677
Total	$ 5,859,894	$ 1,562,275	$ 1,626,775	$ 2,669,865	$ 11,718,809

NOTE 10 - 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 the 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, starting 2008-09. The reduction agreement was amended to extend to June 30, 2013. As of June 30, 2013 the Capital Auto Mall project is currently undergoing negotiations with the District to extend the reduced rates to 2017.

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
2014	$ 232,870	$ 55,283	$ 177,587
2015	232,870	55,283	177,587
2016	232,870	55,283	177,587
2017	116,435	27,642	88,793
Total	$ 815,045	$ 193,491	$ 621,554

NOTE 11 - 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 32 retirees and beneficiaries currently receiving benefits, and 172 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 position 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 2012-2013, the District contributed $39,361 to the plan, all of which was used for current premiums. Contributions made by the District to retirees are capped at $80 per month and dropped to $35 per month when retirees reach age 65.

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, expected subsidized benefits paid, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 63,970
Interest on net OPEB obligation	18,791
Adjustment to annual required contribution	(35,038)
Annual OPEB cost (expense)	47,723
Funding by the District	
Pay-as-you-go amount	(39,361)
Increase in net OPEB obligation	8,362
Net OPEB obligation, beginning of year	626,362
Net OPEB obligation, end of year	$ 634,724

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 was as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	$ 47,723	$ 39,361	82%	$ 634,724
2012	45,314	47,957	106%	626,362
2011	249,388	80,881	32%	629,005

Funded Status and Funding Progress

The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As of July 1, 2011, the most recent actuarial valuation date, the plan has not been funded. The actuarial accrued liability for benefits was $716,605, and there is no actuarial value of assets, resulting in an UAAL of $716,605. The covered payroll (annual payroll of active employees covered by the plan) was $9,033,571, and the ratio of the UAAL to the covered payroll was 7.93 percent.

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.

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, 2011, actuarial valuation, the Projected Unit Credit Method was used. The District provides medical benefits coverage under CalPERS medical plans. The UAAL is being amortized at the level dollar method. The remaining amortization period at July 1, 2013, was 25 years on a closed basis. At July 1, 2013, the District does not hold any net positions for the plan.

The main reason causing the accelerated recognition of the UAAL is because the most recent calculation decreased the Actuarial Present Value of Total Projected Benefits (APVTPB) from $2,728,438 to $869,713. Two factors caused the decrease: 1) the District now provides medical benefits coverage under CalPERS medical plans, which are considered "community rated" as defined in GASB 45, and the accounting standards does not require the valuation of subsidized premiums in community rated plans. 2) The District reduced the covered employees from 399 to 204.

NOTE 12 - 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, 2013, 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.

Worker's Compensation

For fiscal year 2013, 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	$ 5,000,000

Employee Medical Benefits

MetroED was separated from San Jose Unified School District (SJUSD) in 1983. Subsequently, SJUSD has continued to provide medical, dental, life insurance, and income protection programs to MetroED employees until 2011. In 2010, the District learned that it could no longer participate in SJUSD's medical plan because the District has its own tax identification number. Effective January 1, 2012, The District has switched to CalPERS as the medical insurance provider. An agreement was signed between SJUSD and MetroED in 2011 to allow the District to purchase the remaining employee benefit programs through SJUSD, specifically, dental, life, and income protection plan.

NOTE 13 - 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, 100 Waterfront Place, West Sacramento, CA 95605.

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 2012-2013 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, 2013, 2012, and 2011, were $383,522, $388,976, and $449,952, 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 2012-2013, 2011-2012 and 2010-2011 were 11.417, 10.923, and 9.709 percent of covered payroll, respectively. 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, 2013, 2012, and 2011, were $436,950, $438,400, and $479,374 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.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. 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 budgeted amounts reported in the *General Fund and Adult Education Fund - Budgetary Comparison Schedule*. These payments consist of State General Fund contributions to CalSTRS in the amount as follows:

Fiscal Year	Percent of Annual Payroll	General Fund	Adult Education Fund	Total State Contribution
2012-13	5.176%	$ 182,346	$ 99,924	$ 282,270
2011-12	4.855%	145,717	83,068	228,785
2010-11	4.267%	110,503	122,218	232,721

NOTE 14 - 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, 2013.

Litigation

The District is currently involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, there is no pending litigation expected to have a material adverse effect on the overall financial position of the District at June 30, 2013.

NOTE 15 - 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.

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN EDUCATION DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	**Final**	**Actual** [1]	**Final to Actual**
REVENUES				
Federal sources	$ 58,581	$ 63,361	$ 63,318	$ (43)
Other state sources	11,625,500	12,525,739	13,009,042	483,303
Other local sources	2,047,126	2,279,642	1,978,844	(300,798)
Total Revenues[1]	13,731,207	14,868,742	15,051,204	182,462
EXPENDITURES				
Current				
Certificated salaries	3,281,811	3,253,461	3,160,986	92,475
Classified salaries	2,896,246	2,937,116	2,976,801	(39,685)
Employee benefits	2,418,655	2,493,953	2,437,381	56,572
Books and supplies	943,468	1,194,249	1,181,788	12,461
Services and operating expenditures	2,845,561	2,788,560	2,582,749	205,811
Other outgo	1,798,741	1,902,494	1,902,457	37
Capital outlay	14,100	99,188	73,361	25,827
Total Expenditures[1]	14,198,582	14,669,021	14,315,523	353,498
Excess of Revenues Over Expenditures	(467,375)	199,721	735,681	535,960
Other Financing Sources (Uses):				
Transfers in	175,587	175,587	2,742	(172,845)
Transfers out	(166,466)	(483,946)	(250,000)	233,946
Net Financing Sources	9,121	(308,359)	(247,258)	61,101
NET CHANGE IN FUND BALANCES	(458,254)	(108,638)	488,423	597,061
Fund Balance - Beginning	4,550,353	4,550,353	4,550,353	-
Fund Balance - Ending	$ 4,092,099	$ 4,441,715	5,038,776	$ 597,061
Special Reserve Fund for Other than Capital Outlay			821,118	
Fund Balance - General Fund GAAP Basis			$ 5,859,894	

[1] For comparison purposes, on behalf payments of $182,346 and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects are excluded from this schedule.

METROPOLITAN EDUCATION DISTRICT

MAJOR SPECIAL REVENUE FUND - ADULT EDUCATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts Original	Budgeted Amounts Final	Actual [1] (GAAP Basis)	Variances - Favorable (Unfavorable) Final to Actual
REVENUES				
Federal sources	$ 578,144	$ 566,596	$ 566,700	$ 104
Other state sources	-	-	93,110	93,110
Other local sources	3,449,743	3,283,579	3,160,456	(123,123)
Total Revenues[1]	4,027,887	3,850,175	3,820,266	(29,909)
EXPENDITURES				
Current				
Certificated salaries	1,740,951	1,770,480	1,732,201	38,279
Classified salaries	1,124,759	1,077,421	1,052,784	24,637
Employee benefits	1,144,904	1,129,520	1,097,816	31,704
Books and supplies	191,046	201,562	180,367	21,195
Services and operating expenditures	394,851	403,775	332,454	71,321
Capital outlay	-	4,384	4,379	5
Total Expenditures[1]	4,596,511	4,587,142	4,400,001	187,141
Excess (Deficiency) of Revenues Over Expenditures	(568,624)	(736,967)	(579,735)	157,232
Other Financing Sources (Uses):				
Transfers in	-	67,480	-	(67,480)
Net Change In Fund Balances	(568,624)	(669,487)	(579,735)	89,752
Fund Balance - Beginning	2,142,010	2,142,010	2,142,010	-
Fund Balance - Ending	$ 1,573,386	$ 1,472,523	$ 1,562,275	$ 89,752

[1] For comparison purposes, on behalf payments of $99,924 are excluded from this schedule.

.

METROPOLITAN EDUCATION DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2011	$ -	$ 716,605	$ 716,605	0%	$ 9,033,571	7.93%
July 1, 2009	-	1,808,239	1,808,239	0%	12,356,188	14.63%

SUPPLEMENTARY INFORMATION

METROPOLITAN EDUCATION DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

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:			
Adult Education			
Adult Secondary Education	84.002	13978	$ 102,632
English Second Language	84.002A	14508	282,045
English Literacy and Civics Education	84.002A	14109	165,483
Adult Section 132	84.048	13923	79,858
Total Expenditures of Federal Awards			$ 630,018

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2013

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 25 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 education program had its beginnings in San Jose, in 1883, and was called "evening school." Prior to World War I, young adults to make up deficiencies in their earlier education primarily used the evening school.

Currently, the Metropolitan Adult Education Program, the adult program for the San Jose Unified School District, is still providing educational opportunities and services to equip adults with the knowledge and skills necessary to participate effectively as citizens, workers, family members and community members. The program now serves approximately 2,500 adult students on the Hillsdale campus.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mr. Richard Garcia, SJUSD	President	2014
Mr. Daniel Bobay, MUSD	Vice President	2014
Mr. Matthew Dean, CUHSD	Clerk	2014
Ms. Cynthia Chang, LGSJUHSD	Member	2014
Mr. J. Manuel Herrera, ESUHSD	Member	2013
Mr. Jim Canova, SCUSD	Member	2013

ADMINISTRATION

Alyssa Lynch	Superintendent
Debbie Fry	Chief Business Officer
Joyce Shen	Fiscal Service Manager

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2013

	Second Period Report	Annual Report
Mandated Programs:		
Regional Occupational Programs	3,951	3,910
Classes for Adults		
Not concurrently enrolled	626	583
Full-time Independent Study	51	49
Total District ADA	4,628	4,542

	Hours of Attendance	
Apprenticeship	67,808	118,495

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, 2013

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

	General Fund	Special Reserve Other
FUND BALANCE		
Balance, June 30, 2013, Unaudited Actuals	$ 5,038,776	$ 821,118
To conform with GASB 54, the District consolidated Fund 17, Special Reserve Fund for Other Than Capital Outlay into General fund.	821,118	(821,118)
Balance, June 30, 2013, Audited Financial Statement	$ 5,859,894	$ -

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

	(Budget) 2014[1]	2013	2012	2011
GENERAL AND ADULT EDDUCATION FUND [5]				
Revenues	$ 17,506,864	$ 18,871,470	$ 19,111,306	$ 23,520,883
Other sources and transfers in	688,316	2,742	261,118	354,149
Total Revenues and Other Sources	18,195,180	18,874,212	19,372,424	23,875,032
Expenditures	18,824,440	18,715,524	19,084,792	22,382,786
Other uses and transfers out	38,800	250,000	656,997	1,456,892
Total Expenditures and Other Uses	18,863,240	18,965,524	19,741,789	23,839,678
INCREASE (DECREASE) IN FUND BALANCE	$ (668,060)	$ (91,312)	$ (369,365)	$ 35,354
ENDING FUND BALANCE	$ 5,932,991	$ 6,601,051	$ 6,692,363	$ 7,061,728
AVAILABLE RESERVES [2]	$ 2,195,266	$ 2,209,677	$ 2,230,499	$ 2,339,108
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	11.64%	11.65%	11.30%	9.81%
LONG-TERM OBLIGATIONS	$ 1,893,716	$ 1,893,716	$ 1,925,329	$ 1,938,475
K-12 AVERAGE DAILY ATTENDANCE AT P-ANNUAL [4]	7,699	7,699	7,699	7,699

The General and Adult Fund balances have decreased by $460,677 over the past two years. The fiscal year 2013-2014 budget projects a decrease of $668,060 (10 percent). During 2010-11, the Board passed a minimum fund balance policy to require the District to reserve 10 percent for economic uncertainties and 5 percent for cash flow of the General Fund and Adult Education expenditures.

The District has incurred an operating deficit in two of the past three years and anticipates incurring an operating deficit during the 2013-2014 fiscal year.

Total long-term obligations have decreased by $44,759 over the past two years.

---

[1] Budget 2014, is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties within the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

[3] On-behalf payments of $282,270, $228,785, and $232,721, have been excluded from the calculation of the available reserves percentage for fiscal year ending June 30, 2013, 2012 and 2011.

[4] The District is funded based on 2007-08 ADA commencing 2008-09 through 2012-13 per SBX3 4.

[5] For comparison purpose, this schedule excludes activity related to the consolidation of the Special Reserve - Other Fund as required by GASB Statement No. 54 and on-behalf payments in accordance with GAAP.

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013

	Deferred Maintenance Fund	Building Fund	County School Facilities Fund	Total Non-Major Governmental Funds
ASSETS				
Deposits and investments	$ 713,171	$ 250,369	$ 528,959	$ 1,492,499
Receivables	782	921	957	2,660
Due from other funds	50,000	1,000,000	500,000	1,550,000
Total Assets	$ 763,953	$ 1,251,290	$ 1,029,916	$ 3,045,159
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 2,760	$ 109,455	$ 263,079	$ 375,294
Fund Balances:				
Restricted	-	-	657,095	657,095
Committed	761,193	-	-	761,193
Assigned	-	1,141,835	109,742	1,251,577
Total Fund Balances	761,193	1,141,835	766,837	2,669,865
Total Liabilities and Fund Balances	$ 763,953	$ 1,251,290	$ 1,029,916	$ 3,045,159

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, 2013

	Deferred Maintenance Fund	Building Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES				
Other state sources	$ 334,028	$ -	$ -	$ 334,028
Other local sources	4,163	191,382	11,080	206,625
Total Revenues	338,191	191,382	11,080	540,653
EXPENDITURES				
Plant services	173,126	-	-	173,126
Facility acquisition and construction	242,194	196,819	2,172,882	2,611,895
Total Expenditures	415,320	196,819	2,172,882	2,785,021
Deficiency of Revenues Over Expenditures	(77,129)	(5,437)	(2,161,802)	(2,244,368)
Other Financing Sources (Uses):				
Transfers out	(2,742)	-	-	(2,742)
NET CHANGE IN FUND BALANCES	(79,871)	(5,437)	(2,161,802)	(2,247,110)
Fund Balance - Beginning	841,064	1,147,272	2,928,639	4,916,975
Fund Balance - Ending	$ 761,193	$ 1,141,835	$ 766,837	$ 2,669,865

See accompanying note to supplementary information.

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 Balances

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

INDEPENDENT AUDITOR'S REPORTS

This page left blank intentionally.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metropolitan Education District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Metropolitan Education District's basic financial statements, and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

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

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

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

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Compliance and Other Matter

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 8, 2013

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

Governing Board
Metropolitan Education District
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Metropolitan Education District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Metropolitan Education District's (the District) major Federal programs for the year ended June 30, 2013. Metropolitan Education District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Metropolitan Education District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of Metropolitan Education District's compliance.

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Opinion on Each Major Federal Program

In our opinion, Metropolitan Education District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 8, 2013

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Metropolitan Education District
San Jose, California

Report on State Compliance

We have not audited Metropolitan Education District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2013, because all procedures identified below are not applicable to Metropolitan Education District's government programs for the year ended June 30, 2013.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above.

Because there are no State compliance requirements required to be tested in the current year, we do not express an opinion about whether Metropolitan Education District complied with the compliance requirements referred to below for the year ended June 30, 2013.

All procedures below are not applicable to the Metropolitan Education District:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Not Applicable
Teacher Certification and Misassignments	3	Not Applicable
Kindergarten Continuance	3	Not Applicable
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	6	Not Applicable
County Offices of Education	3	Not Applicable

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	8	Not Applicable
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Not Applicable
School Accountability Report Card	3	Not Applicable
Juvenile Court Schools	8	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
Districts 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	5	Not Applicable
Before School	6	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	4	Not Applicable

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 8, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

METROPOLITAN EDUCATION DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	No
Identification of major programs:	

CFDA Number(s)	Name of Federal Program or Cluster
84.002 and 84.002A	Adult Education

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	Not Applicable

METROPOLITAN EDUCATION DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

None reported.

METROPOLITAN EDUCATION DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

None reported.

METROPOLITAN EDUCATION DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

None reported.

METROPOLITAN EDUCATION DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

There were no audit findings reported in the prior year's schedule of financial statement findings.