

**METROPOLITAN EDUCATION
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

METROPOLITAN EDUCATION DISTRICT

OF SANTA CLARA COUNTY

SAN JOSE, CALIFORNIA

JUNE 30, 2008

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Diane Gordon, Campbell	President	2009
Mr. Ernie Dossa, Santa Clara	Vice President	2009
Mr. Richard Garcia, San Jose	Clerk	2008
Ms. Marsha Grilli, Milpitas	Member	2008
Ms. Cynthia Chang, Los Gatos-Saratoga	Member	2008
Mr. Frank Biehl, East Side	Member	2009

ADMINISTRATION

Paul Hay	Superintendent/Chief Business Officer
Wendy Zhang	Director of Fiscal Services

METROPOLITAN EDUCATION DISTRICT

TABLE OF CONTENTS

JUNE 30, 2008

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	42
Major Special Revenue Fund – Adult Education – Budgetary Comparison Schedule	43

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	44
Local Education Agency Organization Structure	45
Schedule of Average Daily Attendance	46
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	47
Schedule of Financial Trends and Analysis	48
Excess Sick Leave	49
Note to Supplementary Information	50

UNAUDITED SUPPLEMENTARY INFORMATION

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet – Unaudited	51
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Unaudited	52
Combining Statement of Fiduciary Funds Net Assets – Unaudited	53
Note to Unaudited Supplementary Information	54

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	57
Report on State Compliance	59

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	61
Financial Statement Findings	62
Federal Award Findings and Questioned Costs	63
State Award Findings and Questioned Costs	64
Summary Schedule of Prior Audit Findings	65

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Metropolitan Education District
San Jose, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Education District (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Education District, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vavrinek, Irwin, Day : Co., LLP

Palo Alto, California
November 21, 2008



**Metropolitan
Education District**

**Management's Discussion and Analysis
For The Fiscal Year Ended June 30, 2008**

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 32 high school campuses, serves more than 30,000 high school juniors, seniors and adults. MetroED's Adult Education program, one of the largest in the state, serves approximately 20,000 adults in both San Jose and Campbell at five main sites and 38 outreach sites. The six participating school districts are: Campbell Union High School District, East Side Union High school District, Los Gatos-Saratoga Joint Union High School District, Milpitas Unified School District, San Jose Unified School District, and Santa Clara Unified School District.

FINANCIAL HIGHLIGHTS

- MetroED's primary funding comes from the state budget in the form of Revenue Limit apportionments based on a fixed amount per average daily attendance (ADA). For the fiscal year 2007-2008, the District received a basic revenue limit per unit of average daily attendance of \$3,336 plus \$156 (4.53%) cost of living adjustment (COLA) for the Regional Occupational Center and Program (ROC/P) and \$2,531 basic revenue limit plus \$115 (4.53%) COLA growth for the Adult Education program.
- The allowable average daily attendance that may be claimed by the District is capped by the state for both ROC/P and Adult Education. For 2007-2008, the District received a cap growth of 1.53% and 2.50%, respectively, for the ROC/P and Adult Education program. The final ADA caps were 4,156 for ROC/P and 3,506 for Adult Education. The actual ADA earned for the ROC/P program was 4,425, which exceeded its cap by 232 ADA. The actual ADA earned for the Adult Education program was 3,549, which exceeded its cap by 43 ADA.
- The District settled contracts with all of its bargaining units for the year, providing all employees with a 2% salary increase plus a 5.00% increase in the District's contribution to employee health and welfare benefits.
- ROC/P and Adult Education programs are considered categorical programs and, unlike K-12 general education, do not receive state advance apportionment funding at the beginning of the fiscal year. Funds are apportioned ONLY after the state budget is signed into law, resulting in the district having to rely on temporary reserves to cover vendor payments and employee payrolls. In response to a history of delayed state budgets, the District governing board established policy that District reserves for both the ROC/P and Adult Education programs are to be maintained at no less than 10%, composed of a 4% General Reserve and a 6% Reserve for Economic Uncertainty, to provide sufficient cash for vendor payments and employee wages for a 60-day period.

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

- In 1982-83, the Public Employees Retirement System (PERS) employer contribution rate was reduced from 13.02% to 12.045%. The state was in financial crisis and a state law was passed requiring the recapture of the savings from the PERS rate reduction. This was to have been a one-time reduction of districts' Revenue Limit apportionment. However, this one-time reduction has been a continuous part of the Revenue Limit calculation since 1982-83. State law has been confusing as to whether the PERS recapture applies to ROC/Ps operating as Joint Powers Authorities (JPAs). Currently, both the California Department of Education and the Department of Finance believe that the PERS offset applies to ROC/P JPAs. However, they have not imposed the recapture because of an incorrect Ed Code reference. The matter continues to be unresolved. The MetroED Governing Board has recognized the potential financial liability to the District, and directed that reserves be established for both the General and Adult Education funds sufficient to pay the PERS Reduction recapture retroactive for three years. The General Fund PERS reserve is held in the District Fund 170 "Special Reserve Fund for Other Than Capital Outlay Projects." The Adult Education Fund reserve is designated as part of the fund balance for the Adult Education Fund 110.
- On April 16, 2008, An Evaluation of the Effectiveness and Efficiency of MetroED's Support Functions report was presented by School Services of California. In this report, School Services of California commented that "Our overall conclusions about the level of efficiency and effectiveness of the support functions were positive." And that they also "found evidence of good management practices and prudent use of resources in nearly every area." There is no "evidence of overstaffing or misapplication of resources." This report also compares its findings with the report previously presented about the district in 2002. Comparing to 2002, MetroED has streamlined administrative and support staff, created savings to programs and increased reserve levels. The report also cited improvement in the District's relationships with collective bargaining units, strategic planning, information sharing and the District's information systems. One concern noted in the report was the unfilled position of the Chief Business Official, which has since been filled in the following fiscal year.
- An Other Post-Employment Benefit (OPEB) report was completed by an actuarial firm in the spring of 2008. This report calculated that the District carries a present value of \$2.3 million of accrued liabilities for post-retirement employee benefits. A contribution table has been provided to fulfill the obligations. The District shall continue with pay-as-you-go method until the economy shows signs of improvement before making additional contributions to this category.
- In response the Governor Schwarzenegger's January budget proposal to cut 2008-09 funding for ROC/P and Adult Education by 6.5%, the District initiated a number of steps to build fund reserves to help the District continue to function effectively during the budget and two subsequent years. These efforts were successful in generating reserve contingencies for state deficits of \$1 million in the General Fund and \$800,000 in the Adult Education Fund.

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

2007-2008 RESULTS OF OPERATIONS

The District's General (ROC/P) Fund revenues and other financing sources exceeded expenditures and other financing uses by \$445,380, resulting in an ending fund balance total of \$3,068,416. The fund balance includes a General Reserve of \$684,978 (4%) and a reserve Designated for Economic Uncertainties of \$1,027,467 (6%). The combined reserves of 10% were established as policy by the governing board to provide sufficient reserves for cash flow. Additional governing board fund balance designations include \$51,667 for the revolving cash and prepaid expenses; \$5,599 legally restricted for the unspent portion of an equipment block grant and restricted Prop. 20 lottery pass-through funds; \$1,000,000 set aside as contingency for potential state deficits; \$160,000 for on-going Salary Commitment; \$60,000 for the WASC accreditation self-study and other CTE reforms. There was an undesignated fund balance of \$78,705.

The District's Adult Education Fund revenues and other financing sources exceeded expenditures and other financing uses by \$1,191,642, resulting in an ending fund balance of \$2,808,729. The fund balance includes a General Reserve of \$452,137 (4%) and a reserve Designated for Economic Uncertainties of \$678,204 (6%). The combined reserves of 10% were established as policy by the governing board to provide sufficient reserves for cash flow. Additional governing board fund balance designations include \$302,000 for the potential PERS recapture liability; \$15,158 legally restricted for the unspent one time block grant; \$170,000 for the on-going Salary Commitment; \$100,000 for the WASC accreditation self-study and staff development. There is also an \$800,000 set-aside for potential State Deficits; \$170,000 for Capital Facilities and \$70,000 for computer upgrades. There was an undesignated fund balance of \$51,230.

The District Deferred Maintenance fund was fully funded for the 2007-2008 fiscal year. The District received \$161,187 in total from the state. The District transferred its full required match of \$176,954, and \$16,768 was earned in interest. After expenditures, the Deferred Maintenance Fund balance decreased by \$44,986, leaving an ending fund balance of \$415,486.

The District Special Reserve Fund for Other Than Capital Outlay Projects is used to account for the accumulation of General Fund money for purposes other than capital outlay. This fund was authorized by the Governing Board in October 2006 to reserve mandated cost reimbursements pending audit by the State Controllers' Office (SCO). Also included in this fund is the transfer from the General Fund for the PERS recapture liability. For the year, the ending fund balance was \$490,016. Within that, \$396,076 was designated for PERS Recapture Liability, and \$93,946 for the Mandated Costs reimbursement.

The District Building Fund, otherwise known as the Asset Management Fund, exists primarily to account separately for proceeds from rentals and leases of real property. These proceeds are to be used on the CCOC campus for new programs, upgrading of existing programs and necessary facility upgrades. Revenues include lease payments from the Capital Auto Mall LLC and interest earnings. The lease payments are for leasehold improvements on property located on JPA-owned land on Capitol Expressway, adjacent to the CCOC Hillsdale Avenue campus. For 2007-2008, the fund realized lease and interest income of \$300,757. After expenditures of \$172,853, the ending fund balance of the fund was \$664,139. By governing board policy, this fund must maintain a minimum ending fund balance of \$250,000 for emergencies.

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2008

2007-2008 RESULTS OF OPERATIONS (Continued)

The District’s Special Reserve for Capital Outlay Projects Fund exists primarily to provide for the accumulation of monies for capital outlay purposes. The fund is divided into three “sub-funds” that allow the District to account separately for funds allocated to the Central County Occupational Center (CCOC), San Jose Adult Education program and Campbell Adult Education program. The following chart summarizes the Capital Outlay Fund activity for 2007-2008:

					CCOC	Adult ED San Jose	Adult ED Campbell	Total
<u>Revenues:</u>								
	Interest earnings				\$ 470,468	\$ 67,821	\$ 29,946	\$ 568,235
	Transfers in - debt service				-	290,672	141,489	432,161
	Transfers in - capital outlay				2,500,000	-	-	2,500,000
	Total Sources Available				2,970,468	358,493	171,435	3,500,396
<u>Expenditures:</u>								
	Building 700 renovation project				143,268	-	-	143,268
	Debt service - QZAB bond interest				19,500	-	-	19,500
	Transfer out - adult education fund				-	22,924	202,678	225,602
	Total Expenses				162,768	22,924	202,678	388,370
	Excess of Revenues Over Expenditures				2,807,700	335,569	(31,243)	3,112,026
	Beginning Fund Balance				5,364,483	1,402,007	767,382	7,533,872
	Ending Fund Balance				\$ 8,172,183	\$ 1,737,576	\$ 736,139	\$ 10,645,898

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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 district-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 district-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 district-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.

District-wide Statements

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

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

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

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

OVERVIEW OF THE FINANCIAL REPORT (continued)

Fund Financial Statements

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

- Some funds are required by law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like proceeds from the lease of a section of the Hillsdale site to the Capitol Auto Mall Plaza LLC).

The District has two kinds of funds:

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

METROPOLITAN EDUCATION DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

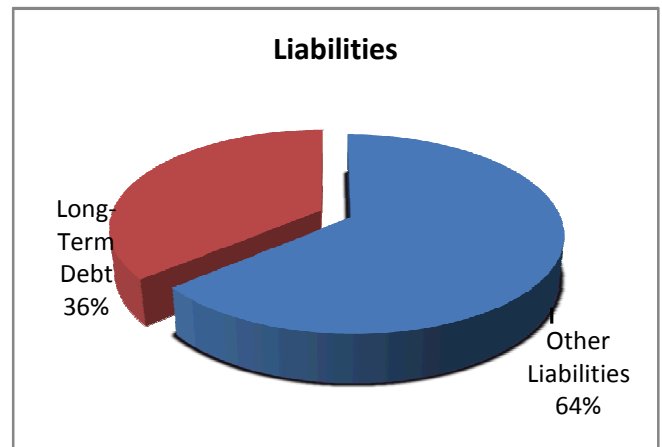
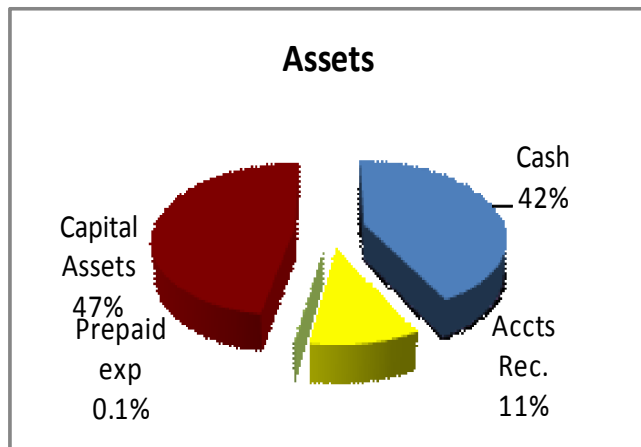
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities:

The District’s net assets increased from \$30,464,589 to \$35,099,315 at June 30, 2008; an increase of \$4,634,726, or 15%. The dismal budget perspective of 2008-2009 caused the district to take measures to tighten the budget and reduced spending. The majority of the savings was due to a freeze in expenditures. Within the budget savings, \$2,500,000 was contributed to the funding of building renovation project.

<u>Comparative Statement of Net Assets</u>		
Assets:	2007-2008 FY	2006-2007 FY
Cash	\$ 16,311,707	\$ 10,844,712
Accounts receivable	4,002,229	4,402,589
Prepaid expenditures	31,667	20,597
Capital Assets, net of accumulated depreciation	18,284,361	18,504,138
Total Assets	38,629,964	33,772,036
Liabilities:		
Other liabilities	2,252,919	2,029,330
Long-term debt outstanding	1,277,730	1,278,117
Total Liabilities	3,530,649	3,307,447
Net Assets:	\$ 35,099,315	\$ 30,464,589

2007-2008



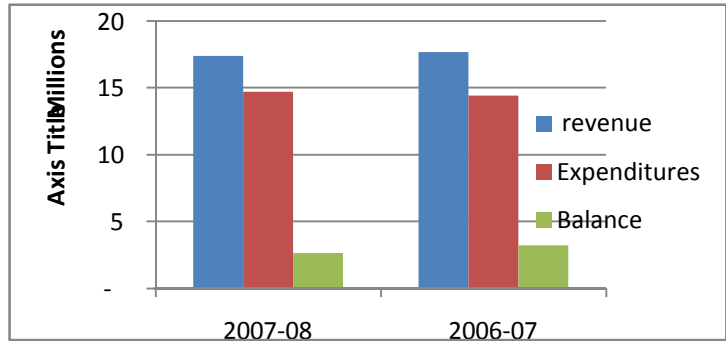
METROPOLITAN EDUCATION DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities: (Continued)

The District’s total revenues increased from \$30,419,621 to \$31,297,805 at June 30, 2008, an increase of \$878,184 or at total of 2.9%. Part of the revenue increase was due to the COLA increase for 2007-2008. Total expenditures decreased by \$221,327 due to expenditure freeze to be poised in anticipation of the potential State budget downturn for 2008-09 and future years.



<u>Comparative Statement of Revenue and Expenses</u>			
		<u>2007-2008 FY</u>	<u>2006-2007 FY</u>
<u>Program Revenues:</u>			
Operating Grants & Contributions		\$ 15,708,094	\$ 17,526,235
<u>General Revenues:</u>			
Federal and State Aid not restricted		-	302,773
Interest and investment earnings		648,887	571,654
Interagency revenues		9,962,625	8,719,412
Miscellaneous		4,978,199	3,299,547
Total Revenues		31,297,805	30,419,621
<u>Program Expenses:</u>			
Instruction		12,704,552	13,122,121
Instruction-related services		9,862,211	8,370,483
Pupil services		1,072,307	952,440
General administration		25,735	1,911,340
Plant services		2,963,026	2,381,726
Interest on long-term debt		19,500	25,551
Other outgo		15,748	120,745
Total Expenses		26,663,079	26,884,406
Change in Net Assets		\$ 4,634,726	\$ 3,535,215

METROPOLITAN EDUCATION DISTRICT

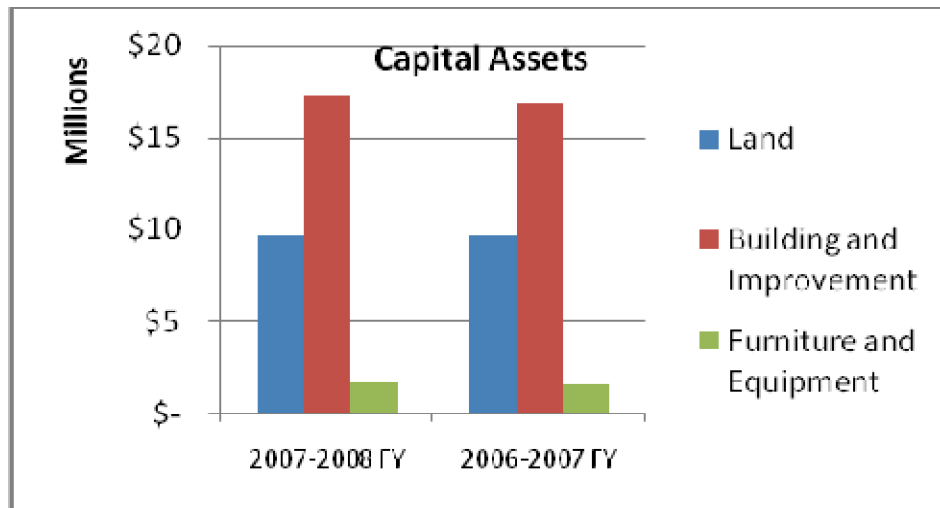
**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities: (Continued)

<u>Comparative Statement of Capital Assets</u>			
		2007-2008 FY	2006-2007 FY
Land		\$ 9,683,028	\$ 9,683,028
Building and Improvement		17,293,708	16,828,409
Furniture and Equipment		1,703,757	1,597,399
	Subtotals	28,680,493	28,108,836
Less: Accumulated Depreciation			
Buildings		(9,774,200)	(9,091,865)
Equipment		(621,932)	(512,833)
	Subtotals	(10,396,132)	(9,604,698)
	Capital Assets, Net	\$ 18,284,361	\$ 18,504,138

The total of \$571,657 was added to the District’s Capital Assets in 2007-2008. Part of the increases came from the transformer replacement and Building 700 renovation projects continued from 2006-2007.



METROPOLITAN EDUCATION DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Governmental Activities: (Continued)

In 2007-2008, the District’s vacation used was more than the amounts incurred by \$387. More detailed information about the District’s long-term liabilities is presented in Notes to Basic Financial Statements, Long-Term Liabilities section.

Comparative Schedule of Long-Term Liabilities			
		2007-2008 FY	2006-2007 FY
Compensated absences		\$ 277,730	\$ 278,117
Qualified zone academy bond		1,000,000	1,000,000
Total		\$ 1,277,730	\$ 1,278,117

METROPOLITAN EDUCATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The statutory cost of living adjustment (COLA) to the District's Revenue Limit for both ROC/P and Adult Education programs for 2007-2008 is 4.53%. However this COLA becomes 0% in the 2008-2009 projection.
- Projected growth for the Adult Education program is 2.5% or 84 additional Average Daily Attendance (ADA) units for the 2008-2009 Fiscal Year.
- For 2008-2009 the District will experience the following changes in its statutory benefit rates: Workers' Compensation Insurance rate increase from 1.5011% to 1.6499%, and the California Public Employees' Retirement System (PERS) employer contribution rate increase from 9.306% to 9.428%.
- The 2008-2009 adopted budget includes employee salary increases for step, column and longevity changes, and a 5.00% increase to the employer's contribution to the employees' health and welfare plans. There are no other increases to employee salary schedules. However, the District will be negotiating salary & benefit issues with all three of its bargaining units for 2008-2009.
- 2007-2008 is the second year for implementing a four-year CCOC funding equalization plan. In the original plan, we projected ROC/P growth ADA to be about 95 ADA per year for 4 years. The revenue limit from the growth ADA was to be used to help fund equalization between the JPA participating districts. However, with new information received from the state, for 2007-08 we have a negative growth adjustment carried from the 2006-07 fiscal year, and there will be no growth ADA for the foreseeable future. Apparently, the equalization plan will be affected by those changes and the District is in the process of working with our participating Districts to develop an alternative equalization plan.
- In October 2008, the Governor, in reaction to the economic downturn, proposed to cut \$2.5 billion in education as a mid-year budget reduction, which could impact our District's budget for 2008-09 as well as the following fiscal year. Although our District has set aside reserves in preparation of this kind of catastrophe, we are still waiting for the final word from the State Capital.

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 Jing-Jing Wang, Chief Business Official, Metropolitan Education District, 760 Hillsdale Avenue, Building 400, San Jose, CA 95136.

METROPOLITAN EDUCATION DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 16,311,707
Receivables	4,002,229
Prepaid expenses	31,667
Capital assets not depreciated	9,683,028
Capital assets, net of accumulated depreciation	8,601,333
Total Assets	38,629,964
LIABILITIES	
Accounts payable	2,238,837
Deferred revenue	14,082
Noncurrent portion of long-term obligations	1,277,730
Total Liabilities	3,530,649
NET ASSETS	
Invested in capital assets, net of related debt	18,027,128
Restricted for:	
Legally restricted	1,209,539
Capital projects	10,567,270
Special revenues	905,502
Unrestricted	4,389,876
Total Net Assets	\$ 35,099,315

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

METROPOLITAN EDUCATION DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

			Net (Expenses)
			Revenues and
		Program	Changes in
		Revenues	Net Assets
		Operating	
		Grants and	Governmental
Functions/Programs	Expenses	Contributions	Activities
Governmental Activities :			
Instruction	\$ 12,704,552	\$ 7,711,025	\$ (4,993,527)
Instruction-related activities:			
Supervision of instruction	5,022,708	2,825,369	(2,197,339)
School site administration	4,839,503	2,566,284	(2,273,219)
Pupil services:			
Home-to-school transportation	754,981	607,982	(146,999)
Food services	172,895	65,327	(107,568)
All other pupil services	144,431	83,295	(61,136)
General administration:			
All other general administration	25,735	25,612	(123)
Plant services	2,963,026	1,807,452	(1,155,574)
Interest on long-term obligations	19,500	-	(19,500)
Other outgo	15,748	15,748	-
Total Governmental Activities	\$ 26,663,079	\$ 15,708,094	(10,954,985)
General revenues and subventions:			
Interest and investment earnings			648,887
Interagency revenues			9,962,625
Miscellaneous			4,978,199
Subtotal, General Revenues			15,589,711
Change in Net Assets			4,634,726
Net Assets - Beginning			30,464,589
Net Assets - Ending			\$ 35,099,315

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

METROPOLITAN EDUCATION DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008**

	General	Adult	Special Reserve
	Fund	Education	Capital Outlay
	Fund	Fund	Fund
ASSETS			
Deposits and investments	\$ 4,707,135	\$ 2,250,604	\$ 7,715,726
Receivables	2,373,355	1,582,086	32,376
Due from other funds	-	133,052	2,932,161
Prepaid expenditures	31,667	-	-
Total Assets	\$ 7,112,157	\$ 3,965,742	\$ 10,680,263
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,396,607	\$ 724,852	\$ 34,365
Due to other funds	2,633,052	432,161	-
Deferred revenue	14,082	-	-
Total Liabilities	4,043,741	1,157,013	34,365
Fund Balances:			
Reserved	742,244	467,295	742,767
Unreserved:			
Designated	2,247,467	2,290,204	9,903,131
Undesignated, reported in:			
General fund	78,705	-	-
Special revenue funds	-	51,230	-
Capital projects funds	-	-	-
Total Fund Balance	3,068,416	2,808,729	10,645,898
Total Liabilities and			
Fund Balances	\$ 7,112,157	\$ 3,965,742	\$ 10,680,263

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

Non Major Governmental Funds	Total Governmental Funds
\$ 1,638,242	\$ 16,311,707
14,412	4,002,229
-	3,065,213
-	31,667
\$ 1,652,654	\$ 23,410,816
\$ 83,013	\$ 2,238,837
-	3,065,213
-	14,082
83,013	5,318,132
-	1,952,306
490,016	14,930,818
-	78,705
415,486	466,716
664,139	664,139
1,569,641	18,092,684
\$ 1,652,654	\$ 23,410,816

METROPOLITAN EDUCATION DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total Fund Balance - Governmental Funds		\$ 18,092,684
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 28,680,493	
Accumulated depreciation is	(10,396,132)	
Net Capital Assets		18,284,361
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:		
Compensated absences (vacations)	277,730	
Qualified zone academy bond payable (QAZB)	1,000,000	
Total Long-Term Liabilities		(1,277,730)
Total Net Assets - Governmental Activities		\$ 35,099,315

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

METROPOLITAN EDUCATION DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Adult Education Fund	Special Reserve Capital Fund
REVENUES			
Federal sources	\$ 101,204	\$ 966,821	\$ -
Other State sources	254,861	806,946	269,203
Other local sources	17,332,889	10,765,988	299,031
Total Revenues	17,688,954	12,539,755	568,234
EXPENDITURES			
Current			
Instruction	7,425,844	4,554,764	-
Instruction-related activities:			
Supervision of instruction	2,530,992	2,517,539	-
School site administration	1,656,059	3,183,444	-
Pupil Services:			
Home-to-school transportation	754,981	-	-
Food services	172,895	-	-
All other pupil services	83,762	60,669	-
General administration:			
All other general administration	25,735	-	-
Plant services	1,778,179	732,588	202,678
Facility acquisition and construction	-	-	166,191
Other outgo	15,748	-	-
Debt service			
Interest and other	-	-	19,500
Total Expenditures	14,444,195	11,049,004	388,369
Excess (Deficiency) of			
Revenues Over Expenditures	3,244,759	1,490,751	179,865
Other Financing Sources (Uses):			
Transfers in	10,627	133,052	2,932,161
Transfers out	(2,810,006)	(432,161)	-
Net Financing Sources (Uses)	(2,799,379)	(299,109)	2,932,161
NET CHANGE IN FUND BALANCES	445,380	1,191,642	3,112,026
Fund Balance - Beginning	2,623,036	1,617,087	7,533,872
Fund Balance - Ending	\$ 3,068,416	\$ 2,808,729	\$ 10,645,898

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,068,025
161,187	1,492,197
339,675	28,737,583
500,862	31,297,805
-	11,980,608
-	5,048,531
-	4,839,503
-	754,981
-	172,895
-	144,431
-	25,735
249,581	2,963,026
312,540	478,731
-	15,748
-	19,500
562,121	26,443,689
(61,259)	4,854,116
176,954	3,252,794
(10,627)	(3,252,794)
166,327	-
105,068	4,854,116
1,464,573	13,238,568
\$ 1,569,641	\$ 18,092,684

METROPOLITAN EDUCATION DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Balances - Governmental Funds		\$4,854,116
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for government-wide statements, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	\$ (791,434)	
Capital outlays	571,657	
Net Expense Adjustment		(219,777)
In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$387.		387
Change in Net Assets of Governmental Activities		\$4,634,726

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

METROPOLITAN EDUCATION DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Agency Funds
ASSETS	
Deposits and investments	\$ 970,798
Receivables	3,154
Total Assets	\$ 973,952
LIABILITIES	
Accounts payable	\$ 53,237
Due to Metropolitan Adult Education Program	360,570
Due to Central County Occupational Center	560,145
Total Liabilities	\$ 973,952

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with three public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 14 to the financial statements. These organizations are:

Schools Excess Liability Fund
Santa Clara County Schools Insurance Group
South Bay Area Schools Insurance Authority

Basis of Presentation - Fund Accounting

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

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Major Governmental Funds

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

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

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

Non-Major Governmental Funds

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

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

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

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The District maintains only agency funds.

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

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

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

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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. Principal and interest on long-term obligations, which have not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2008, 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.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Prepaid Expenditures

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

Capital Assets and Depreciation

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

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

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

Interfund Balances

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

Compensated Absences

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

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves and Designations

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

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$12,682,311 of restricted net assets, of which \$1,209,539 is restricted by enabling legislation.

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.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

New Accounting Pronouncements

GASB Statement No. 45 – In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

GASB Statement No. 50 – In May 2007, GASB issued GASBS No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans*

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

and Note Disclosures for Defined Contribution Plans, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged. Adoption of this statement is not expected to materially impact the District's financial statements.

GASB Statement No. 51 – In June 2007, GASB issued GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Adoption of this statement is not expected to materially impact the District's financial statements.

GASB Statement No. 52 – In November 2007, GASB issued GASBS No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged. Adoption of this statement is not expected to materially impact the District's financial statements.

GASB Statement No. 53 – In June 2008, GASB issued GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. Adoption of this statement is not expected to materially impact the District's financial statements.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities		\$ 16,311,707
Fiduciary funds		970,798
Total Deposits and Investments		<u>\$ 17,282,505</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks		\$ 300,656
Investments		
County Investment Pool	\$ 12,911,278	
Local Agency Investment Pool	1,251,471	
Investment with fiscal agent	742,767	
Other investments	<u>2,076,333</u>	
		16,981,849
Total Deposits and Investments		<u>\$ 17,282,505</u>

Policies and Practices

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

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

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

General Authorizations

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

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Interest Rate Risk

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

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

Investment Type	Fair Value	Carrying Value	Maturity Date
Aegon Investment Agreement ¹	\$ 742,733	\$ 742,733	12/22/20
BNY Hamilton Money Fund Premier	34	34	N/A
County Pool	12,938,263	12,911,278	N/A
Federal Home Loan Bank	74,550	74,550	05/15/12
Local Agency Investment Fund	1,251,409	1,251,471	N/A
Money Market Mutual Funds	2,001,783	2,001,783	N/A
Total	\$ 17,008,772	\$ 16,981,849	

¹ Exceed maximum maturity of five years

Credit Risk

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

Investment Type	Fair Value	Minimum	Not Required	Rating as of Year End	
		Legal Rating	To Be Rated	AAA	Unrated
Aegon Investment Agreement	\$ 742,733	N/A	\$ -	\$ 742,733	\$ -
BNY Hamilton Money Fund Premier	34	N/A	34	-	34
County Pool	12,938,263	N/A	12,938,263	-	12,938,263
Federal Home Loan Bank	74,550	N/A	-	74,550	-
Local Agency Investment Fund	1,251,409	N/A	1,251,409	-	1,251,409
Money Market Mutual Funds	2,001,783	N/A	2,001,783	-	2,001,783
Total	\$ 17,008,772		\$ 16,191,489	\$ 817,283	\$ 16,191,489

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. The District believes it has no significant custodial credit risk exposure.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the total investments of \$16,981,849 the District has custodial credit risk exposure of \$2,819,100 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 – RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Adult	Special Reserve	Non-Major		
	Fund	Education	Capital Outlay	Governmental	Total	Fiduciary
	Fund	Fund	Fund	Funds		Funds
Federal Government						
Categorical aid	\$ 101,204	\$ 298,729	\$ -	\$ -	\$ 399,933	\$ -
State Government						
Apportionment	1,817,153	936,815	-	-	2,753,968	-
Categorical aid	53,351	155,295	-	-	208,646	-
Lottery	255,909	-	-	-	255,909	-
Local Government						
Interest	52,609	24,285	32,376	14,412	123,682	-
Other Local Sources	93,129	166,962	-	-	260,091	3,154
Total	<u>\$ 2,373,355</u>	<u>\$ 1,582,086</u>	<u>\$ 32,376</u>	<u>\$ 14,412</u>	<u>\$ 4,002,229</u>	<u>\$ 3,154</u>

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance			Balance
	July 1, 2007	Additions	Deductions	June 30, 2008
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 9,683,028	\$ -	\$ -	\$ 9,683,028
Capital Assets Being Depreciated:				
Land Improvements	1,078,779	336,042	-	1,414,821
Buildings and Improvements	15,749,630	129,257	-	15,878,887
Furniture and Equipment	1,597,399	106,358	-	1,703,757
Total Capital Assets Being Depreciated	18,425,808	571,657	-	18,997,465
Total Capital Assets	28,108,836	571,657	-	28,680,493
Less Accumulated Depreciation:				
Land Improvements	108,770	59,077	-	167,847
Buildings and Improvements	8,983,095	623,258	-	9,606,353
Furniture and Equipment	512,833	109,099	-	621,932
Total Accumulated Depreciation	9,604,698	791,434	-	10,396,132
Governmental Activities Capital Assets, Net	\$ 18,504,138	\$ (219,777)	\$ -	\$ 18,284,361

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

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2008, between major funds are as follows:

		Due From		
		Adult Education Fund	Special Reserve Capital Fund	Total
Due To	General fund	\$ 133,052	\$ 2,500,000	\$ 2,633,052
	Adult Education Fund	-	432,161	432,161
	Total	\$ 133,052	\$ 2,932,161	\$ 3,065,213

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

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Transfer Out	Transfer In				Total
	General Fund	Adult Education Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 133,052	\$ 2,500,000	\$ 176,954	\$ 2,810,006
Adult Education Fund	-	-	432,161	-	432,161
Non-Major Governmental funds	10,627	-	-	-	10,627
Total	\$ 10,627	\$ 133,052	\$ 2,932,161	\$ 176,954	\$ 3,252,794
The General fund transferred to the Adult fund for Pass-Thru Lottery.					\$ 133,052
The General fund transferred to the Deferred Maintenance fund for District Match.					176,954
The General fund transferred to the Special Reserve Capital fund for prior year excess ADA and other one time funding.					2,500,000
The Adult fund transferred to the Special Reserve Capital fund for prior year excess ADA and other one time funding.					432,161
The Building fund transferred to the General fund for the three percent administration fees.					10,627
Total					\$ 3,252,794

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General	Adult	Special Reserve	Non-Major		
	Fund	Fund	Capital	Governmental	Total	Fiduciary
	Fund	Fund	Fund	Funds	Total	Funds
Vendor payables	\$ 1,063,009	\$ 288,213	\$ 34,365	\$ 83,013	\$ 1,468,600	\$ 53,237
State apportionment	4,288	104,759	-	-	109,047	-
Salaries and benefits	329,310	331,880	-	-	661,190	-
Total	\$ 1,396,607	\$ 724,852	\$ 34,365	\$ 83,013	\$ 2,238,837	\$ 53,237

NOTE 7 - LONG-TERM OBLIGATIONS

Summary

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

	Balance			Balance	Due in
	July 1, 2007	Additions	Deductions	June 30, 2008	One Year
Accumulated vacation	\$ 278,117	\$ -	\$ 387	\$ 277,730	\$ -
Qualified zone academy bond	1,000,000	-	-	1,000,000	-
Total	\$ 1,278,117	\$ -	\$ 387	\$ 1,277,730	\$ -

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

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2008, amounted to \$277,730.

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 at June 30, 2008 is \$742,767. 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, 2008

NOTE 8 - FUND BALANCES

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

	General	Adult	Special Reserve	Non-Major	
	Fund	Fund	Capital	Governmental	
	Fund	Fund	Fund	Funds	Total
Reserved					
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ 20,000
Prepaid expenditures	31,667	-	-	-	31,667
General reserve	684,978	452,137	-	-	1,137,115
Legally restricted	5,599	15,158	742,767	-	763,524
Total Reserved	742,244	467,295	742,767	-	1,952,306
Unreserved					
Designated					
Economic uncertainties	1,027,467	678,204	-	-	1,705,671
Other designation	1,220,000	1,612,000	9,903,131	490,016	13,225,147
Total Designated	2,247,467	2,290,204	9,903,131	490,016	14,930,818
Undesignated	78,705	51,230	-	1,079,625	1,209,560
Total Unreserved	2,326,172	2,341,434	9,903,131	1,569,641	16,140,378
Total	\$ 3,068,416	\$ 2,808,729	\$ 10,645,898	\$ 1,569,641	\$ 18,092,684

NOTE 9 - LEASE REVENUES

The District has land held for lease. Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but is unlikely that the District will cancel any of the agreements prior to their expiration date. The rental amount will be adjusted annually by consumer price index. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending	Lease	Paid to	District
June 30,	Revenue	County	Portion
2009	\$ 347,000	\$ 79,810	\$ 267,190
2010	347,000	79,810	267,190
2011	356,000	81,880	274,120
2012	364,000	83,720	280,280
2013	364,000	83,720	280,280
Total	\$ 1,778,000	\$ 408,940	\$ 1,369,060

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 10 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 50 with at least 10 years of service. Currently, 41 employees meet those eligibility requirements. The District contributes \$80 monthly of the amount of premiums incurred by retirees and their dependents before the retirees reach age 65 and the retiree contributes the remainder. After retirees reach 65, the District contributes \$35 monthly of the amount of premiums incurred. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis. During the year, expenditures of \$19,203 were recognized for retirees' health care benefits.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2008, 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.

Workers' Compensation

For fiscal year 2008, 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 workers' 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	\$ 15,000,000
South Bay Area Schools Insurance Authority	General Liabilities	\$ 4,800,000

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Employee Medical Benefits

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

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory 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 and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Blvd., Sacramento, CA 95826.

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 2007-2008 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, 2008, 2007, and 2006, were \$599,517, \$628,114, and \$597,382, respectively, and equal 100 percent of the required contributions for each year.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 death 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 2007-2008 was 9.306 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$491,377, \$474,534, and \$438,875, 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 and CalPERS on behalf of the District for General fund and Adult fund. These payments consist of State General Fund contributions to CalSTRS in the amount of \$150,493 and \$177,751 (4.517 percent of salaries subject to STRS). No contributions were made for CalPERS for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Schedule.

METROPOLITAN EDUCATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2008.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2008.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

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

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

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN EDUCATION DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual¹	Variances -
	(GAAP Basis)		(GAAP Basis)	Favorable
	Original	Final		(Unfavorable)
				Final
				to Actual
REVENUES				
Federal sources	\$ -	\$ 101,204	\$ 101,204	\$ -
Other State sources	78,752	131,303	254,861	123,558
Other local sources	15,964,410	17,164,565	17,332,889	168,324
Total Revenues¹	16,043,162	17,397,072	17,688,954	291,882
EXPENDITURES				
Current				
Instruction	8,279,258	7,926,854	7,425,844	501,010
Instruction-related activities:				
Supervision of instruction	2,800,372	2,719,404	2,530,992	188,412
Instructional library, media, and technology	-	6,608	-	6,608
School site administration	1,266,071	1,305,387	1,656,059	(350,672)
Pupil services:				
Home-to-school transportation	675,665	720,813	754,981	(34,168)
Food services	187,622	177,813	172,895	4,918
All other pupil services	64,850	66,147	83,762	(17,615)
General administration:				
All other general administration	35,000	18,500	25,735	(7,235)
Plant services	1,738,661	1,776,147	1,778,179	(2,032)
Other outgo	-	15,748	15,748	-
Total Expenditures¹	15,047,499	14,733,421	14,444,195	289,226
Excess (Deficiency) of Revenues Over Expenditures	995,663	2,663,651	3,244,759	581,108
Other Financing Sources (Uses):				
Transfers in	10,495	31,231	10,627	(20,604)
Transfers out	(266,273)	(2,463,396)	(2,810,006)	(346,610)
Net Financing Sources (Uses)	(255,778)	(2,432,165)	(2,799,379)	(367,214)
NET CHANGE				
IN FUND BALANCES	739,885	231,486	445,380	213,894
Fund Balance - Beginning	2,623,036	2,623,036	2,623,036	-
Fund Balance - Ending	\$ 3,362,921	\$ 2,854,522	\$ 3,068,416	\$ 213,894

¹ On behalf payments of \$150,493 are included in the actual state revenues and instruction expenditures, but have not been included in the budget amounts.

METROPOLITAN EDUCATION DISTRICT

**MAJOR SPECIAL REVENUE FUND – ADULT EDUCATION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual¹	Variances -
	(GAAP Basis)		(GAAP Basis)	Positive
	Original	Final		(Negative)
				Final
				to Actual
REVENUES				
Federal sources	\$ 769,623	\$ 966,821	\$ 966,821	\$ -
Other State sources	586,862	628,862	806,946	178,084
Other local sources	10,234,585	10,651,101	10,765,988	114,887
Total Revenues¹	11,591,070	12,246,784	12,539,755	292,971
EXPENDITURES				
Current				
Instruction	5,622,877	5,241,306	4,554,764	686,542
Instruction-related activities:				
Supervision of instruction	2,466,760	2,524,525	2,517,539	6,986
School site administration	2,400,162	2,555,014	3,183,444	(628,430)
Pupil services:				
All other pupil services	68,336	66,336	60,669	5,667
Plant services	700,318	785,811	732,588	53,223
Total Expenditures¹	11,258,453	11,172,992	11,049,004	123,988
Excess (Deficiency) of Revenues Over Expenditures	332,617	1,073,792	1,490,751	416,959
Other Financing Sources (Uses):				
Transfers in	-	137,335	133,052	(4,283)
Transfers out	-	-	(432,161)	(432,161)
Net Financing Sources (Uses)	-	137,335	(299,109)	(436,444)
NET CHANGE IN FUND BALANCE	332,617	1,211,127	1,191,642	(19,485)
Fund Balance - Beginning	1,617,087	1,617,087	1,617,087	-
Fund Balance - Ending	\$ 1,949,704	\$ 2,828,214	\$ 2,808,729	\$ (19,485)

¹ On behalf payments of \$177,751 are included in the actual state revenues and instructional expenditures, but have not been included in the budget amounts.

SUPPLEMENTARY INFORMATION

METROPOLITAN EDUCATION DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

		Pass-Through	
	Federal	Entity	
Federal Grantor/Pass-Through	CFDA	Identifying	Federal
Grantor/Program or Cluster Title	Number	Number	Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education			
English Second Language (ESL)	84.002A	14109	\$ 428,182
Adult Secondary Education	84.002A	13978	47,358
English Literacy and Civics Education	84.002A	14794	475,817
Vocational Education - Carl Perkins Act	84.048	13923	116,668
Total Expenditures of Federal Awards			<u>\$ 1,068,025</u>

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

ORGANIZATION

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

The high school program began as San Jose Technical High School (1917 – 1958). The school was located on the site of San Jose High School. The school moved two times before becoming a Center on Hillsdale Avenue, where it has been located since 1968. Currently, CCOC serves high school students from 32 high schools within the six school districts. The six districts are Campbell Union High School District, East Side Union High School District, Los Gatos-Saratoga Joint Union High School District, Milpitas Unified School District, San Jose Unified School District, and Santa Clara Unified School District.

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

GOVERNING BOARD

Ms. Diane Gordon, Campbell	President	2009
Mr. Ernie Dossa, Santa Clara	Vice President	2009
Mr. Richard Garcia, San Jose	Clerk	2008
Mr. Frank Biehl, East Side	Member	2009
Ms. Cynthia Chang, Los Gatos-Saratoga	Member	2008
Ms. Marsha Grilli, Milpitas	Member	2008

ADMINISTRATION

NAME	TITLE
Paul Hay	Superintendent / Chief Business Officer
Dan Gilbertson	Human Resources Director
Pamela Watson	Director of Accountability & Instruction
Wendy Zhang	Director of Fiscal Services

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, 2008**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2008.

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

	(Budget)			
	2009 ¹	2008	2007	2006
GENERAL AND ADULT FUND				
Revenues	\$ 26,270,355	\$ 30,228,709	\$ 29,519,518	\$ 26,385,091
Other sources	147,830	143,679	153,555	1,010,494
Total Revenues and Other Sources	26,418,185	30,372,388	29,673,073	27,395,585
Expenditures	27,076,603	25,493,199	25,937,572	24,447,935
Other uses and transfers out	314,289	3,242,167	2,842,646	2,722,335
Total Expenditures and Other Uses	27,390,892	28,735,366	28,780,218	27,170,270
INCREASE (DECREASE)				
IN FUND BALANCE	\$ (972,707)	\$ 1,637,022	\$ 892,855	\$ 225,315
ENDING FUND BALANCE	\$ 4,904,438	\$ 5,877,145	\$ 4,240,123	\$ 3,347,268
AVAILABLE RESERVES ^{2, 3}	\$ 3,182,438	\$ 2,972,721	\$ 2,976,878	\$ 2,876,827
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	11.62%	10.46%	10.47%	10.72%
LONG-TERM OBLIGATIONS	\$ 1,300,000	\$ 1,277,730	\$ 1,278,117	\$ 1,421,331
K-12 AVERAGE DAILY ATTENDANCE AT P-ANNUAL ⁴	7,696	7,699	7,551	7,293

The

General and Adult Fund balance has increased by \$2,529,877 over the past two years. The fiscal year 2008-2009 budget projects a decrease of \$927,707 (16 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General and Adult Fund expenditures, transfers out, and other uses (total outgo). The Board policy also required the District to designate 6% for economic uncertainties and 4% for general reserve.

The District has incurred an operating surplus in two of the past three years and anticipates incurring an operating deficit during the 2008-2009 fiscal year. Total long-term obligations have decreased by \$143,601 over the past two years. The decrease on long-term obligations was mainly due to elimination of capital lease for portable classrooms.

Funded Average daily attendance has increased by 406 over the past two years. Additional reduction of 3 ADA is anticipated during fiscal year 2008-2009.

¹ Budget 2009 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances, all funds designated for economic uncertainty and all funds reserved for general reserve within the General Fund and Adult Fund.

³ On-behalf payments of \$328,244, \$343,902, and \$327,111 have been excluded from the calculation of the available reserves percentage for fiscal year ending June 30, 2008, 2007 and 2006.

⁴ Reported ADA figures have been adjusted to reflect the ADA limitation placed on adult education and ROP ADA for apportionment purposes.

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

EXCESS SICK LEAVE JUNE 30, 2008

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Metropolitan Education District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

See accompanying note to supplementary information.

METROPOLITAN EDUCATION DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

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.

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

UNAUDITED SUPPLEMENTARY INFORMATION

METROPOLITAN EDUCATION DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2008**

	Deferred	Special Reserve		Total Non-Major
	Maintenance	Other	Building	Governmental
	Fund	Fund	Fund	Funds
ASSETS				
Deposits and investments	\$ 438,805	\$ 485,801	\$ 713,636	\$ 1,638,242
Receivables	4,164	4,215	6,033	14,412
Total Assets	\$ 442,969	\$ 490,016	\$ 719,669	\$ 1,652,654
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 27,483	\$ -	\$ 55,530	\$ 83,013
Total Liabilities	27,483	-	55,530	83,013
Fund Balances:				
Unreserved:				
Designated	-	490,016	-	490,016
Undesignated, reported in:				
Special revenue funds	415,486	-	-	415,486
Capital projects funds	-	-	664,139	664,139
Total Fund Balance	415,486	490,016	664,139	1,569,641
Total Liabilities and Fund Balances	\$ 442,969	\$ 490,016	\$ 719,669	\$ 1,652,654

See accompanying note to unaudited supplementary information.

METROPOLITAN EDUCATION DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2008**

	Deferred	Special Reserve		Total Non-Major
	Maintenance	Other	Building	Governmental
	Fund	Fund	Fund	Funds
REVENUES				
Other State sources	\$ 161,187	\$ -	\$ -	\$ 161,187
Other local sources	16,768	22,150	300,757	339,675
Total Revenues	177,955	22,150	300,757	500,862
EXPENDITURES				
Current				
Plant services	98,790	-	150,791	249,581
Facility acquisition and construction	301,105	-	11,435	312,540
Total Expenditures	399,895	-	162,226	562,121
Excess (Deficiency) of				
Revenues Over Expenditures	(221,940)	22,150	138,531	(61,259)
Other Financing Sources (Uses):				
Transfers in	176,954	-	-	176,954
Transfers out	-	-	(10,627)	(10,627)
Net Financing Sources (Uses)	176,954	-	(10,627)	166,327
NET CHANGE IN				
FUND BALANCES	(44,986)	22,150	127,904	105,068
Fund Balance - Beginning	460,472	467,866	536,235	1,464,573
Fund Balance - Ending	\$ 415,486	\$ 490,016	\$ 664,139	\$ 1,569,641

See accompanying note to unaudited supplementary information.

METROPOLITAN EDUCATION DISTRICT

FIDUCIARY FUNDS

COMBINING STATEMENT OF FIDUCIARY NET ASSETS - UNAUDITED

JUNE 30, 2008

	CCOC		MAEP		Total
	Revolving	Scholarship	Revolving	Scholarship	
ASSETS					
Deposits and investments	\$ 321,777	\$ 240,112	\$ 242,822	\$ 166,087	\$ 970,798
Receivables	188	-	2,966	-	3,154
Total Assets	\$ 321,965	\$ 240,112	\$ 245,788	\$ 166,087	\$ 973,952
LIABILITIES					
Accounts payable	\$ 1,932	\$ -	\$ 43,259	\$ 8,046	\$ 53,237
Due to MAEP	-	-	202,529	158,041	360,570
Due to CCOC	320,033	240,112	-	-	560,145
Total Liabilities	\$ 321,965	\$ 240,112	\$ 245,788	\$ 166,087	\$ 973,952

See accompanying note to unaudited supplementary information.

METROPOLITAN EDUCATION DISTRICT

NOTE TO UNAUDITED SUPPLEMENTARY INFORMATION JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

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

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

Fiduciary Funds - Statement of Net Assets - Unaudited

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Metropolitan Education District
San Jose, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metropolitan Education District as of and for the year ended June 30, 2008, which collectively comprise Metropolitan Education District's basic financial statements and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

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

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

Varrinek, Irwin, Day : Co., LLP

Palo Alto, California
November 21, 2008



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

Governing Board
Metropolitan Education District
San Jose, California

Compliance

We have audited the compliance of Metropolitan Education District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. Metropolitan Education District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Metropolitan Education District's management. Our responsibility is to express an opinion on Metropolitan Education District's compliance based on our audit.

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

In our opinion, Metropolitan Education District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

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

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

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

Metropolitan Education District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Metropolitan Education District's response and, accordingly, we express no opinion on it.

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

Vavrinek, Irwin, Day : Co., LLP

Palo Alto, California
November 21, 2008



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Metropolitan Education District
 San Jose, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Metropolitan Education District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Classroom Teacher Salaries	1	Not Applicable
Gann limit calculation	1	Not Applicable
School Construction Funds:		
School District bonds	3	Not Applicable
State school facilities funds	1	Yes
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Not Applicable
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program:		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the Metropolitan Education District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Metropolitan Education District had not complied with the laws and regulations. Our audit does not provide a legal determination on Metropolitan Education District's compliance with the State laws and regulations referred to above.

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

Vavrinek, Irene, Day : Co., LLP

Palo Alto, California
November 21, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

METROPOLITAN EDUCATION DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2008**

FINANCIAL STATEMENTS		
Type of auditors' report issued:		Unqualified
Internal control over financial reporting:		
Material weaknesses identified?		No
Significant deficiencies identified not considered to be material weaknesses?		None reported
Noncompliance material to financial statements noted?		No
FEDERAL AWARDS		
Internal control over major programs:		
Material weaknesses identified?		No
Significant deficiencies identified not considered to be material weaknesses?		None reported
Type of auditors' report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)		No
Identification of major programs:		
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
84.002A	Adult Education Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000
Auditee qualified as low-risk auditee?		Yes
STATE AWARDS		
Internal control over State programs:		
Material weaknesses identified?		No
Significant deficiencies identified not considered to be material weaknesses?		None reported
Type of auditors' report issued on compliance for State programs:		Unqualified

METROPOLITAN EDUCATION DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

METROPOLITAN EDUCATION DISTRICT

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

METROPOLITAN EDUCATION DISTRICT

**STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

METROPOLITAN EDUCATION DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.