

**SAN MATEO COUNTY COMMUNITY
COLLEGE DISTRICT RETIREMENT
FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

**FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010
WITH
INDEPENDENT AUDITORS' REPORT**

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

JUNE 30, 2011

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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

The Retirement Board of Authority of the
San Mateo County Community College District
Retirement Futuris Public Entity Investment Trust
San Mateo, California

We have audited the accompanying statement of net assets of the San Mateo County Community College District Retirement Futuris Public Entity Investment Trust (the Trust), a component unit of the San Mateo County Community College District, (the District) as of June 30, 2011 and 2010, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion 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. 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 opinion.

As discussed in Note 2, the financial statements referred to above present only the Trust and do not purport to, and do not present the financial position of the San Mateo County Community College District as of June 30, 2011, and the changes in its financial position for the year then ended, in conformity with principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Trust as of June 30, 2011 and 2010, and the changes in trust net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by 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.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 9, 2011

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST

MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2011

This section provides an overview and analysis of the financial activities of San Mateo County Community College District Retirement Futuris Public Entity Investment Trust (the Trust) for the fiscal year ended June 30, 2011. The Trust was established in October 2009 by the District's Board of Directors and assets held for Other Post Employment Benefits were transferred to an irrevocable trust in November 2009. Additional transfers were made during the 2010-11 fiscal year. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements.

FINANCIAL HIGHLIGHTS

The net assets of the San Mateo Community College District Retirement Futuris Public Entity Investment Trust (Trust) at the close of fiscal year 2011 are \$16,656,584 (net assets held in trust for retiree medical benefits). All of the net assets are available to meet the Trust's ongoing obligations to participants and beneficiaries.

The Trust's funding objective is to meet long-term benefit obligations through contributions and investment income. The Trust is funded through annual contribution from the District. The Trust was initially funded by the District by transferring \$5,000,000 from the District Retiree Benefits Reserve Fund. Additional transfers totaling \$10,000,000 were transferred during the 2010-11 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis are intended to serve as an introduction to the Trust's financial statements, which comprises these components:

1. Statement of Trust Net Assets
2. Statement of Changes in Trust Net Assets
3. Notes to the Basic Financial Statements

The Statement of Trust Net Assets is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The Statement of Changes in Trust Net Assets, on the other hand, provides a view of current year additions to and deductions from the Trust. Both statements are in compliance with Governmental Accounting Standard Board Statement (GASB Pronouncements 34, 43 and 45). These pronouncements require certain disclosures and require the state and local governments to report using the full accrual method of accounting. The Trust complies with all material requirements of these pronouncements.

The Statement of Trust Net Assets and the Statement of Changes in Trust Net Assets report information about the Trust's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date. In addition, both realized and unrealized gains and losses are shown pertaining to the investments.

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

**MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2011**

These two statements report the Trust's net assets held in irrevocable trust account for retirees' medical benefits. Net assets, the difference between assets and liabilities are one way to measure the Trust's financial position. Over time, increase and decrease in net assets is one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Trust's overall health.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Trust's progress in funding its obligations to provide retiree medical benefits to members. Supplementary information is presented on page 14.

FINANCIAL ANALYSIS

As previously noted, net assets may serve over time as a useful indication of the Trust's financial position. The Trust had no liabilities as of June, 30 2011 and 2010.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
NET ASSETS		
Cash and investments	\$ 16,640,137	\$ 4,900,358
Interest receivable	16,447	-
Liabilities	-	-
Net assets	<u>\$ 16,656,584</u>	<u>\$ 4,900,358</u>

The changes to Trust net assets during the fiscal year ended June 30, 2011 and 2010, are as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
CHANGES IN NET ASSETS		
Additions	\$ 11,711,126	\$ 5,002,166
Deductions	(44,900)	(11,808)
Beginning balance	4,990,358	-
Net assets	<u>\$ 16,656,584</u>	<u>\$ 4,990,358</u>

CONTACTING THE TRUST'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors, and creditors with a general overview of the Trust's finances and to show the Trust's accountability for the money it receives. If you have any questions about this report or need any additional financial information, please contact Kathy Blackwood at blackwoodk@smccd.edu or (650) 358-6869 with the San Mateo County Community College District.

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

**STATEMENT OF TRUST NET ASSETS
AS OF JUNE 30, 2011 AND 2010**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS		
Investments	\$ 16,640,137	\$ 4,990,358
Interest receivable	16,447	-
Total Assets	<u>\$ 16,656,584</u>	<u>\$ 4,990,358</u>
 NET ASSETS		
Net assets held in trust for OPEB	<u>\$ 16,656,584</u>	<u>\$ 4,990,358</u>
Total Net Assets	<u>\$ 16,656,584</u>	<u>\$ 4,990,358</u>

See the accompanying notes to financial statements.

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

**STATEMENT OF CHANGES IN TRUST NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ADDITIONS		
Contributions		
Employer	\$ 10,000,000	\$ 5,000,000
Investment income, net of investment expenses	1,711,126	2,166
Total Additions	<u>11,711,126</u>	<u>5,002,166</u>
DEDUCTIONS		
Administrative expenses	44,900	11,808
Total Deductions	<u>44,900</u>	<u>11,808</u>
INCREASE IN NET ASSETS	11,666,226	4,990,358
NET ASSETS, BEGINNING OF YEAR	<u>4,990,358</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 16,656,584</u>	<u>\$ 4,990,358</u>

See the accompanying notes to financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE #1 – DESCRIPTION OF TRUST

The following information of the San Mateo County Community College District Retirement Futuris Public Entity Investment Trust (the Trust), a component unit of the San Mateo County Community College District (the District) provides only general information. Readers should refer to the Trust agreement for a more complete description of the Trust's provisions.

General

The Retirement Futuris Public Entity Investment Trust (the Trust) is a contributory single-employer defined benefit healthcare plan trust administered by the San Mateo County Community College District. The Trust provides medical insurance benefits to eligible retirees and their spouses. Membership consists of 1028 retirees and beneficiaries currently receiving benefits and 820 active plan members. The Trust is a governmental plan that is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Contributions to the Trust are funded entirely by the employer. The Trust was established and may be amended by the District's bargaining agreements. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the District's Board of Trustees. During the year, the District contributed \$7,100,154 to pay for current retirees' medical premiums. Members receiving benefits contributed \$30,000, or approximately .004 percent of the total premiums. Contributions made by retirees between \$1 and \$325 per month. In addition to the current premiums, the District contributed \$10,000,000 to the Trust.

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

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

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

In the April 12, 2011, actuarial valuation, the Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rate is assumed at 4 percent per year. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized at a level percentage of payroll method. The remaining amortization period at July 1, 2011, was 30 years. The actuarial value of assets of \$15,643,762 was determined in this actuarial valuation. At July 1, 2011, the Trust held net assets in the amount of \$16,656,584, in investments with Benefit Trust Company.

Investment Options

Benefit Trust Company (BTC), the Asset Custodian, maintains the Trust's investments in various mutual funds, and is the record keeper. BTC contracted with Morgan Stanley Smith Barney as the investment advisor. Funds allocated to the Asset Custodian are invested according to the investment policy statement (IPS) developed and approved by the Retirement Board in a combination of equity and fixed income investments.

Trust Termination

The San Mateo County Community College District and the Trust will adhere to all applicable laws, guidelines and accounting procedures as the Trust Administrator should be doing under current laws and regulations now understood by the District. In absence of procedures the District will follow all prudent processes that would be considered the best to protect all parties' interest in the Trust assets. In the event that all OPEB liabilities have been fulfilled and the liability is determined to be zero, any remaining Trust assets will be returned to the District.

NOTE #2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying basic financial statements are presented on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed, pursuant to formal commitments as well as statutory or contractual commitments. Benefits and refunds of contributions are recognized when due and payable under the provisions of the Trust.

Investment Valuation

Investments are reported at fair market value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates. The fair market value of the investment in mutual funds was \$16,656,584 at June 30, 2011, was valued by the respective mutual fund management firms. Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned.

Net Appreciation (Depreciation) on Investments

Net appreciation (depreciation) on investments is comprised of unrealized and realized gains and losses. Unrealized appreciation (depreciation) adjusts investment carrying amounts to reflect current market values, based on quoted prices in an active market.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Cash and Cash Equivalents

The Trust's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition.

Administrative Expenses

Certain internal costs of administering the Trust are paid by the Trust. Administrative expenses for the year ended June 30, 2011, were \$44,900.

Benefits

Benefits are recognized when paid.

Estimates

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

NOTE #3 – TAX STATUS

The Trust had decided to not pursue an IRS Private Letter Ruling (PLR) for the Trust. Section 115 of the Internal Revenue Code (the IRC) exempts governmental entities from federal taxation on any income derived from an “essential governmental function”. The Trust was established to hold District assets for the purpose of providing irrevocable funding of retiree health and other post-employment benefits to eligible employees and their dependents, and therefore met the definition of “essential governmental function” and is exempt from tax on its income under Section 115 of the Code, and that both the contribution to the Trust and the retiree medical benefits paid there from will not be taxable to retirees or their eligible dependents.

NOTE #4 – INVESTMENTS

The Trust has adopted an internally developed investment policy that is governed by the standards established in the California Constitution. In addition, the Trust has written investment policies regarding the type of investments that may be made specifically for the Trust and the amount, which may be invested in any one financial institution or amounts that may be invested in long-term instruments. Management believes the Trust has complied with the provisions of statutes pertaining to the types of investments held, institutions in which deposits were made, and security requirements.

The fair values of the Trust's individual investments at June 30, 2011 and 2010, are as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Common Stocks	\$ 7,767,451	\$ 2,221,778
Fixed Income	8,872,686	2,768,580
Total investments	<u>\$ 16,640,137</u>	<u>\$ 4,990,358</u>

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

During the fiscal years ended June 30, 2011 and 2010, the Trust’s investments (including gains and losses on investments bought and sold as well as held during the year) appreciated as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Interest income	\$ 127,566	\$ 4,418
Dividend income	366,428	116,162
Realized gains (loss)	236,702	(335)
Unrealized gains	980,430	(118,079)
Total investment income	<u>\$ 1,711,126</u>	<u>\$ 2,166</u>

NOTE #5 – ANNUAL OPEB COST AND NET OPEB OBLIGATION/(PREPAID)

The District’s Annual Required Contribution (ARC) to the Trust is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represent a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual required contribution (ARC)	\$ 7,702,017
Annual OPEB cost (expense) - District paid premiums	(7,100,154)
Contributions made	<u>(10,000,000)</u>
Increase in net OPEB assets	(9,398,137)
Net OPEB prepaid, beginning of year	<u>(116,518)</u>
Net OPEB prepaid, end of year	<u>\$ (9,514,655)</u>

Trend Information

The trend information for annual OPEB costs, the percentage of annual OPEB cost contributed to the Trust, and the net OPEB prepayment are follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation/(Assets)</u>
2011	\$ 7,702,017	\$17,100,154	222%	\$ (9,514,655)
2010	7,383,929	11,167,718	151%	(116,518)

**SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Funding Status and Funding Progress

The funded status of the OPEB Trust as of June 30, 2011, is as follows:

Actuarial Accrued Liability (AAL)	\$ 118,923,929
Actuarial Value of Plan Assets	<u>(15,643,762)</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 103,280,167</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	13%
Covered Payroll	<u>\$ 87,492,518</u>
UAAL as Percentage of Covered Payroll	<u>118%</u>

The above noted actuarial accrued liability was based on the April 12, 2011, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Trust and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.