

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

**FINANCIAL STATEMENTS  
JUNE 30, 2015 and 2014  
WITH  
INDEPENDENT AUDITOR'S REPORT**

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

**JUNE 30, 2015**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements 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) and the related notes to the financial statements, as of and for the year ended June 30, 2015 and 2014, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust at June 30, 2015 and 2014, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Trust, and are not intended to present fairly the financial position and changes in financial position of San Mateo County Community College District in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*Varkinek, Tine, Day & Co., LLP*

Pleasanton, California  
December 16, 2015.

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

## **MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2015**

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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, 2015. 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 2014-15 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 position of the San Mateo Community College District Retirement Futuris Public Entity Investment Trust (Trust) at the close of fiscal year 2015 are \$67,752,791 (net position held in trust for retiree medical benefits). All of the net position 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 contributions from the District's Retiree Benefits Fund.

### ***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 Position
2. Statement of Changes in Trust Net Position
3. Notes to the Basic Financial Statements

**The Statement of Trust Net Position** 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 Position**, 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 Position and the Statement of Changes in Trust Net Position 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, 2015**

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These two statements report the Trust's net position held in irrevocable trust account for retirees' medical benefits. Net position, the difference between assets and liabilities are one way to measure the Trust's financial position. Over time, increase and decrease in net position 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 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 supplementary information concerning the Trust's progress in funding its obligations to provide retiree medical benefits to members. This information is presented in Note 3.

***FINANCIAL ANALYSIS***

As previously noted, net position may serve over time as a useful indication of the Trust's financial position. The Trust had no liabilities as of June, 30 2015 and 2014.

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>NET POSITION</b>		
Cash and investments	\$ 67,669,185	\$ 55,398,405
Interest receivable	83,606	61,510
<b>Net position</b>	<b><u>\$ 67,752,791</u></b>	<b><u>\$ 55,459,915</u></b>

The changes to Trust net position during the fiscal year ended June 30, 2015 and 2014, are as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>CHANGES IN NET POSITION</b>		
Beginning balance	\$ 55,459,915	\$ 39,442,631
Additions	12,513,532	16,187,288
Deductions	(220,656)	(170,004)
<b>Net position</b>	<b><u>\$ 67,752,791</u></b>	<b><u>\$ 55,459,915</u></b>

***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 POSITION  
AS OF JUNE 30, 2015 AND 2014**

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	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>ASSETS</b>		
Investments	\$ 67,669,185	\$ 55,398,405
Interest receivable	83,606	61,510
Total Assets	<u>\$ 67,752,791</u>	<u>\$ 55,459,915</u>
<b>NET POSITION</b>		
Net position held in trust for OPEB	\$ 67,752,791	\$ 55,459,915
Total Net Position	<u>\$ 67,752,791</u>	<u>\$ 55,459,915</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 POSITION  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 12,000,000	\$ 10,000,000
Investment income, net of investment expenses	513,532	6,187,288
Total Additions	<u>12,513,532</u>	<u>16,187,288</u>
<b>DEDUCTIONS</b>		
Administrative expenses	220,656	170,004
Total Deductions	<u>220,656</u>	<u>170,004</u>
<b>INCREASE IN NET POSITION</b>	12,292,876	16,017,284
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>55,459,915</u>	<u>39,442,631</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 67,752,791</u>	<u>\$ 55,459,915</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, 2015**

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### ***NOTE #1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

#### **Organization**

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 1019 retirees and beneficiaries currently receiving benefits and 859 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).

The Trust is funded entirely by the employer. The District contributed \$12,000,000 to the Trust as of June 30, 2015.

#### **Financial Reporting Entity**

The financial statements include only the Retirement Futuris Public Entity Investment Trust of the San Mateo County Community College District. The Trust was established for Other Post Employment Benefits purpose. These financial statements are not intended to present fairly the financial position and results of operations of the San Mateo County Community College District in compliance with accounting principles generally accepted in the United States of America.

#### **Basis of Accounting**

The accompanying 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.

#### **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.

#### **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.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**Administrative Expenses**

Certain internal costs of administering the Trust are paid by the Trust. Administrative expenses for the year ended June 30, 2015, were \$220,656.

**Benefits**

Benefits are recognized when paid.

**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.

**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 #2 – INVESTMENTS***

**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 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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The fair values of the Trust's individual investments at June 30, 2015 and 2014, are as follows:

	June 30, 2015	June 30, 2014
Common Stocks	\$ 33,442,526	\$ 28,180,640
Fixed Income	34,226,659	27,217,765
Total investments	<u><u>\$ 67,669,185</u></u>	<u><u>\$ 55,398,405</u></u>

During the fiscal years ended June 30, 2015 and 2014, the Trust's investments (including gains and losses on investments bought and sold as well as held during the year) appreciated as follows:

	June 30, 2015	June 30, 2014
Dividend & Interest Income	\$ 1,671,987	\$ 1,156,702
Realized gains	4,086,362	3,787,098
Unrealized gains (loss)	(5,244,817)	1,243,488
Total investment income	<u><u>\$ 513,532</u></u>	<u><u>\$ 6,187,288</u></u>

***NOTE #3 – THE DISTRICT'S POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION***

San Mateo County Community College District provides postemployment health care benefits for retiree employees in accordance with negotiated contracts with the various bargaining units of the District. Below are the District's OPEB information summarized for additional analysis purpose.

The District's most recent actuarially determined annual required contribution (ARC) was \$7,138,932. During the year, the District contributed \$7,265,110 for premium for current retirees. In addition, the District contributed \$12,000,000 to the Trust to fund the future retirement benefit cost.

**Funded Status**

The funded status of the District's OPEB plan based on the February 1, 2013, actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	\$ 119,086,798
Actuarial Value of Plan Assets	(62,328,025)
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 56,758,773</u></u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	52%
Covered Payroll	\$ 85,569,412
UAAL as Percentage of Covered Payroll	<u><u>66%</u></u>

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

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**Funding Progress**

The funding progress of the OPEB plan as of June 30, 2015, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
February 1, 2011	\$ 15,643,762	\$ 118,923,929	\$ 103,280,167	13%	\$90,671,696	114%
February 1, 2013	34,870,628	125,352,953	90,482,325	28%	97,167,462	93%
February 1, 2015	62,328,025	119,086,798	56,758,773	52%	85,569,412	66%

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***INDEPENDENT AUDITOR'S REPORT***

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

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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Retirement Futuris Public Entity Investment Trust (the Trust) of San Mateo County Community College District (the District) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements and have issued our report thereon dated December 16, 2015.

#### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Trust, and are not intended to present fairly the financial position and changes in financial position of San Mateo County Community College District in conformity with accounting principles generally accepted in the United States of America.

#### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of This Report**

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

*Vavrinek, Fine, Day & Co., LLP*

Pleasanton, California  
December 16, 2015

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

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDAITONS  
FOR THEYEAR ENDED JUNE 30, 2015**

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None reported.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015**

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None reported.