

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

FINANCIAL STATEMENTS

June 30, 2016

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

FINANCIAL STATEMENTS
June 30, 2016

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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 San Mateo County Community College District Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of San Mateo County Community College District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Trust's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 entity'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 entity'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 opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Mateo County Community College District Retirement Futuris Public Entity Investment Trust, a fiduciary fund of San Mateo County Community College District, as of June 30 2016 and the changes in its financial position 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 District's Trust, and do not purport to, and do not, present fairly the financial position of the San Mateo County Community College District, as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information, such as the Schedule of Funding Progress and Schedule of Employer Contributions on page 9, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing 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 financial statements, and other knowledge we obtained during our audit of the 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 14, 2016 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Trust. 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 for the Trust. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Mateo County Community College District's internal control over financial reporting and compliance for the Trust.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2016

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST
STATEMENT OF TRUST NET POSITION
As of June 30, 2016

ASSETS

Investments:

Mutual funds – fixed income	\$ 39,809,958
Mutual funds – equity	35,707,574
Mutual funds – real estate	4,838,377
Interest receivable	<u>90</u>
 Total assets	 <u>80,355,999</u>

NET POSITION

Net position held in trust for other postemployment benefits	<u>\$ 80,355,999</u>
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The accompanying notes are an integral part of these financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST
STATEMENT OF CHANGE IN TRUST NET POSITION
For the Year Ended June 30, 2016

Additions	
Employer contributions	\$ 19,254,664
Net investment income:	
Dividends and other income	3,142,006
Realized and unrealized losses, net	(2,270,437)
Investment fees	<u>(268,361)</u>
Total additions	<u>19,857,872</u>
Deductions	
Retiree benefits	<u>7,254,664</u>
Net increase	12,603,208
Net position held in trust for other postemployment benefits:	
Net position, July 1, 2015	<u>67,752,791</u>
Net position, June 30, 2016	<u>\$ 80,355,999</u>

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following information of the San Mateo County Community College District Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of the San Mateo County Community College District (the "District"), provides only general information of the Trust's provisions. Readers should refer to the Trust agreement for a more complete description. These financial statements include only the resources of the Trust and are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

Organization: The Trust is a contributory single-employer defined benefit healthcare plan trust administered by the San Mateo County Community College District through a third party. 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).

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 contributions are due, 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.

The financial statements of the Trust have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. In the U.S. the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting. The financial statements have been prepared consistent with GASB Codification Po50, *Postemployment Benefit Plans Other than Pension Plans*.

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.

Investment Valuation: Investments are reported at fair value based upon market prices, when available, or estimates of fair value, and unrealized and realized gains and losses are included in the Statement of Change in Trust Net Position.

Contributions: Contributions to the Trust are funded entirely by the employer. The Trust was established and may be amended by the District. Contributions are not required and any contributions by the District are discretionary. Annual retiree benefits are funded from employer contributions on a pay-as-you-go basis. During the year ended June 30, 2016, the District made additional contributions to the Trust, outside of retiree benefits, of \$12,000,000.

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 required contributions of the District 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 multi-year trend information about whether the actuarial value of trust assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of February 1, 2015, the most recent actuarial valuation date, the plan was 52 percent funded. The actuarial accrued liability for benefits was \$119,086,798, the actuarial value of assets was \$62,328,025, resulting in an unfunded actuarial accrued liability of \$56,758,773. As of the last actuarial, the covered payroll (annual payroll of active employees covered by the Plan) was \$85,569,412, and the ratio of the funding excess to the covered payroll was 66 percent.

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

In the February 1, 2015 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 7.0 percent investment rate of return (net of administrative expenses), based on assumed long-term return on plan assets assuming 100% funding through the Trust. Healthcare cost trend rates were 4.0 percent. The unfunded actuarial accrued liability (UAAL) is being amortized at a level percent method on a closed basis over 30 years for the initial UAAL and open basis over 25 years for any residual UAAL. The remaining amortization period at June 30, 2016 was 27 years.

Plan Termination: In the event of Plan termination, the net position of the Trust would be allocated as prescribed in the Trust documents, generally to pay in the order indicated below:

- District's remaining retiree medical benefit liabilities.
- Reasonable expenses of administering the Trust.

Any assets remaining in the Trust after paying off the above liabilities shall revert back to the District.

NOTE 2 – 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, 2016, are as follows:

Mutual funds – fixed income	\$ 39,809,958
Mutual funds – equity	35,707,574
Mutual funds – real estate	<u>4,838,377</u>
Total investments	<u>\$ 80,355,909</u>

(Continued)

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – INVESTMENTS (Continued)

During the fiscal year ended June 30, 2016, the Trust's investments (including gains and losses on investments bought and sold as well as held during the year) appreciated as follows:

Dividend and other	\$ 3,142,006
Realized losses, net	(381,054)
Unrealized losses, net	(1,889,383)
Investment fees	<u>(268,361)</u>
 Total investment income	 <u>\$ 603,208</u>

Custodial Credit Risk: The California Government Code requires California banks and savings and loan associations to secure the Trust's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the Trust. All cash held by financial institutions is entirely insured or collateralized.

Credit Risk: The Trust's investment policy requires all fixed income investments to be of investment grade quality or higher at purchase; that is, at the time of purchases, rated no lower than "BBB" by Standard and Poor's. The Trust Board, at their discretion, may impose a higher standard on an individual investment manager basis as circumstances or investment objectives dictate. At June 30, 2016, the Trust investments consisted of open-end mutual funds, therefore there are no credit ratings to disclose.

Interest Rate Risk: The Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016, the Trust had no significant interest rate risk related to investments held.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments: The following methods and assumptions were used by the Trust to estimate the fair value of its financial instruments at June 30, 2016.

Fair Value Hierarchy: Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Assets Recorded at Fair Value: The following table presents information about the District's assets measured at fair value on a recurring basis as of June 30, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds - fixed income	\$ 39,809,958	\$ 39,809,958	\$ -	\$ -
Mutual funds - equity	35,707,574	35,707,574	-	-
Mutual funds – real estate	<u>4,838,377</u>	<u>4,838,377</u>	-	-
Total	<u>\$ 80,355,909</u>	<u>\$ 80,355,909</u>	<u>\$ -</u>	<u>\$ -</u>

Mutual funds were valued at closing prices from securities exchanges and are classified as Level 1 investments.

During the year ended June 30, 2016, there were no significant transfers in or out of Level 1.

There were no assets or liabilities measured at fair value on a non-recurring basis at June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST
REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2016

I. SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
September 1, 2006	\$ -	\$ 149,530,877	\$ 149,530,877	-	\$ 87,823,351	170%
September 8, 2009	\$ -	\$ 135,296,490	\$ 135,296,490	-	\$ 92,142,686	147%
September 8, 2009*	\$ -	\$ 135,296,490	\$ 135,296,490	-	\$ 85,080,018	159%
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%

* As revised.

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution (ARC)	Contributions	Percentage of ARC Contributed
June 30, 2008	\$ 9,056,503	\$ 6,347,500	70%
June 30, 2009	\$ 8,175,590	\$ 6,534,170	80%
June 30, 2010	\$ 7,383,929	\$ 11,167,718	151%
June 30, 2011	\$ 7,702,017	\$ 17,100,154	222%
June 30, 2012	\$ 7,702,017	\$ 17,103,043	223%
June 30, 2013	\$ 8,642,396	\$ 17,103,043	198%
June 30, 2014	\$ 8,642,396	\$ 16,912,318	196%
June 30, 2015	\$ 7,138,932	\$ 19,265,110	270%
June 30, 2016	\$ 7,138,932	\$ 19,254,664	270%

III. NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

1. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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*

To the Board of Trustees
San Mateo County Community College District
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 accompanying financial statements of San Mateo County Community College Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of San Mateo County Community College District as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

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

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2016