

**SAN JOSÉ/EVERGREEN  
COMMUNITY COLLEGE DISTRICT**

**RETIREMENT FUTURIS PUBLIC ENTITY  
INVESTMENT TRUST FINANCIAL STATEMENTS**

**June 30, 2018**

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
San Jose, California

FINANCIAL STATEMENTS  
June 30, 2018

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
San José/Evergreen Community College District  
San Jose, California

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

We have audited the accompanying financial statements of San José/Evergreen Community College District Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of San José/Evergreen Community College District (the "District") as of and for the year ended June 30, 2018, 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 controls 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 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San José/Evergreen Community College District Retirement Futuris Public Entity Investment Trust, a fiduciary fund of San José/Evergreen Community College District, as of June 30, 2018, and the changes in 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 and results of operations of the San José/Evergreen Community College District in conformity 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 Management's Discussion and Analysis (MD&A) on pages 3 to 5 and the Required Supplementary Information, such as the Schedule of Changes in the Net OPEB Liability and Related Ratios, Schedule of Contributions, and Schedule of Investment Returns on pages 14, 15, and 16, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the 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 October 10, 2018 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 José/Evergreen Community College District's internal control over financial reporting and compliance for the Trust.

San Diego, California  
October 10, 2018

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018

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This section provides an overview and analysis of the financial activities of San José/Evergreen Community College District Retirement Futuris Public Entity Investment Trust (the "Trust") for the fiscal year ended June 30, 2018. The Trust was established in February 2008 by the District's Board of Trustees and assets held for Other Post-Employment Benefits were transferred to an irrevocable trust in May 2009. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in San José/Evergreen Community College District's (the "District") financial statements.

### **FINANCIAL HIGHLIGHTS**

The net position of San José/Evergreen Community College District Retirement Futuris Public Entity Investment Trust at the close of fiscal year 2018 is \$44,997,973n (net assets held in trust for retiree medical benefits). The net position is 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 was initially funded by the District by a one-time transfer in 2009 of \$39,957,416 from its issuance of OPEB taxable bonds.

### **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 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 Standards. These Standards 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 on investments.

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SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
 RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2018

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**OVERVIEW OF THE FINANCIAL STATEMENTS, continued**

These two statements report the Trust's net position held in an irrevocable trust account for retirees' medical benefits. Net position, the difference between assets and liabilities, is 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 required supplementary information concerning the Trust's progress in funding its obligations to provide retiree medical benefits to members.

**FINANCIAL ANALYSIS**

As previously noted, net position may serve over time as a useful indication of the Trust's financial position. The assets of the Trust exceeded its liabilities at the end of the fiscal years ended June 30, 2018 and 2017.

	2018	2017
Investments in mutual funds	\$ 44,997,973	\$ 45,726,800
Accounts payable	-	(135,255)
Net position	\$ 44,997,973	\$ 45,591,545

The \$593.6 thousand decrease reflects payments for retiree benefits (\$4.2 million), net investment gains \$3.6 million.

The changes to the Trust net position during the fiscal year ended June 30, 2018 and 2017 are as follows:

	2018	2017
Investment income/(loss)	\$ 3,565,372	\$ 5,590,234
Retiree benefits	(4,158,944)	(3,839,988)
Beginning balance - adjusted	45,591,545	43,841,299
Net position	\$ 44,997,973	\$ 45,591,545

RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018

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**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, contact the District at: San José/Evergreen Community College District, 40 South Market Street, San Jose, California 95113 or visit the District's website at <http://www.sjeccd.edu/>.



SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
STATEMENT OF TRUST NET POSITION  
June 30, 2018

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**ASSETS**

Investments:

Mutual funds - equity	\$ 18,356,970
Mutual funds – fixed income	24,751,099
Real estate	1,871,552
Total investments	<u>44,979,621</u>
Accounts receivable	<u>18,352</u>
Total assets	<u>44,997,973</u>

**NET POSITION**

Net position restricted for postemployment benefits other than pensions	<u>\$ 44,997,973</u>
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See accompanying notes to financial statements.

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
STATEMENT OF CHANGES IN TRUST NET POSITION  
For the Year Ended June 30, 2018

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**ADDITIONS**

Net investment income:	
Realized and unrealized gains net	\$ 1,818,594
Dividends and other income	1,841,442
Investment fees and charges	(94,664)
Total additions	<u>3,565,372</u>

**DEDUCTIONS**

Retiree benefits	<u>4,158,944</u>
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**Excess of additions over deductions** (593,572)

Net position restricted for postemployment benefits other than pensions

July 1, 2017 45,591,545

June 30, 2018 \$ 44,997,973

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See accompanying notes to financial statements.

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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**NOTE 1 – DESCRIPTION OF PLAN**

The following information of the San José/Evergreen Community College District Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of the San José/Evergreen 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.

General: The District administers the Trust, a contributory single-employer defined benefit healthcare plan through a third-party. The Trust provides postemployment medical, prescription drug and employee assistance program benefits to eligible retirees and their spouses by paying member premiums. Benefit provisions are established and amended through contract negotiations with labor unions and must be approved by the District's Board of Trustees. Membership consists of 296 retirees and 330 beneficiaries currently eligible to receive benefits.

Contributions: Contributions to the Trust are funded entirely by the employer. The Trust was established and may be amended by the District and the American Federation of Teachers Association (AFT), the local California Service Employees Association (CSEA) and unrepresented groups. In 2009, the District issued an OPEB Taxable Bond of \$46,775,000 for the purpose of financing the District's obligation to pay certain healthcare retiree costs related to the defined benefit plan (the "Plan"). The District transferred \$39,957,416 to the Trust to fund the Plan. Contributions are not required and any additional contributions by the District would be discretionary. There were no contributions to the Plan during the fiscal year ended June 30, 2018. Retiree benefits and administrative expenses are funded from the prior contribution and investment earnings.

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 changes in the net OPEB liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents information about whether the plan fiduciary net position is increasing or decreasing over time relative to the total OPEB liability.

As of June 30, 2018, the most recent actuarial valuation date, the plan was 130 percent funded. The total OPEB liability was \$35,138,989, the actuarial value of assets was \$44,997,973, resulting in a funding surplus of \$9,858,984 (including accounts receivable). As of the last actuarial study, the covered payroll (annual payroll of active employees covered by the Plan) was \$35,025,000, and the ratio of the funding excess to the covered payroll was 30 percent.

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SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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**NOTE 1 – DESCRIPTION OF PLAN, continued**

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 June 30, 2018 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 7.9 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.

Investment Options: As appointed by the Retirement Board of Authority, Benefit Trust Company, the Asset Custodian, maintains the Trust's investments in various mutual funds, and is the record keeper and Morgan Stanley is the investment advisor. Funds allocated to the Asset Custodian are invested as directed by the Retirement Board of Authority in a combination of equity and fixed income investments.

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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due, pursuant to formal commitments as well as statutory or contractual commitments. Retiree benefits are recognized when due and payable.

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*, and new standards set forth in GASB Statement No. 74 *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*.

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SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

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 Changes in Trust Net Position.

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

**NOTE 3 – INVESTMENTS**

The Trust has adopted an internally developed investment policy that authorizes the use of a broad range of investment choices that have distinctly different risks and return characteristics. In general, investments held in the Trust Fund are for the primary purpose of meeting present and future OPEB liability obligations and may be invested in accordance with California Government Code Sections 53600 through 53622 that, subject to applicable legal requirements, may provide greater latitude to increase purchasing power and capital growth potential if deemed prudent to do so.

As stated in the Investment Policy, the Trust will invest predominantly in open-end mutual funds. The fair value of the Trust's individual investments is established at net asset value (NAV) and at June 30, 2018 are as follows:

Common stocks	\$ 18,356,970
Fixed income	24,751,099
Real estate	1,871,552
Total investments	<u>\$ 44,979,621</u>

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SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
SCHEDULE OF INVESTMENT RETURNS  
For the Year Ended June 30, 2017

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**SCHEDULE OF INVESTMENT RETURNS**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Annual money-weighted rate of return, net of investment expense	4.76%	5.26%	4.40%	5.13%	6.03%	3.62%	7.43%	11.76%	2.76%	0.00%

**Notes to Schedule:**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, requires a 10-year trend analysis for the schedule of investment returns. The District will continue to display information for all years available until the full 10-year illustration is present.

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 José/Evergreen Community College District  
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of San José/Evergreen Community College District Retirement Futuris Public Entity Investment Trust (the "Trust"), a fiduciary fund of San José/Evergreen Community College District (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 a 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.

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## **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.

San Diego, California  
October 10, 2018