

**SAN JOSE/EVERGREEN  
COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY  
INVESTMENT TRUST**

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

**SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT  
RETIREMENT FUTURIS PUBLIC ENTITY  
INVESTMENT TRUST**

**JUNE 30, 2010**

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

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

The Retirement Board of  
San Jose/Evergreen Community College District  
Retiree Benefit Trust  
San Jose, California

We have audited the accompanying statements of trust net assets of the San Jose/Evergreen Community College District Retirement Futuris Public Entity Investment Trust (the Trust), a component unit of the San Jose/Evergreen Community College District, (the District) as of June 30, 2010 and 2009, and the related statement of changes in trust 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 Jose/Evergreen Community College District as of June 30, 2010, 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 San Jose/Evergreen Community College District Retirement Futuris Public Entity Investment Trust (the Trust) as of June 30, 2010, and 2009, 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 3, 2010

# SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST

## MANAGEMENT DISCUSSION AND ANALYSIS FOR FISCAL YEAR ENDED JUNE 30, 2010

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This section provides an overview and analysis of the financial activities of San Jose/Evergreen Community College District Retirement Futuris Public Entity Investment Trust (the Trust) for the fiscal year ended June 30, 2010. The Trust was established in February 2008 by the District's Board of Directors 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 we have furnished in our financial statements.

### ***FINANCIAL HIGHLIGHTS***

The net assets of San Jose/Evergreen Community College District Retirement Futuris Public Entity Investment Trust at the close of fiscal year 2010 are \$44,000,461 (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 was 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 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 Statements (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 on investments.

# SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST

## MANAGEMENT DISCUSSION AND ANALYSIS JUNE 30, 2010

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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, is one way to measure the plan'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.

### *FINANCIAL ANALYSIS*

As previously noted, net assets 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 fiscal years ended June, 30 2010, and 2009.

NET ASSETS	2010	2009
Cash and investments	\$ 44,282,116	\$ 41,160,832
Accounts payable	(281,655)	(160,553)
Net assets	<u>\$ 44,000,461</u>	<u>\$ 41,000,279</u>

The changes to Trust net assets during the fiscal years ended June 30, 2010 and 2009 are as follows:

CHANGES IN NET ASSETS	2010	2009
Additions	\$ 6,314,650	\$ 41,224,767
Deductions	(3,314,468)	(224,488)
Beginning balance	41,000,279	-
Net assets	<u>\$ 44,000,461</u>	<u>\$ 41,000,279</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, contact the District at: San Jose/Evergreen Community College District, 4750 San Felipe Road, San Jose, California 95135.

**SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT**

**RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
STATEMENTS OF TRUST NET ASSETS  
AS OF JUNE 30, 2010 AND 2009**

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ASSETS	2010	2009
Cash and cash equivalents	\$ -	\$ 1,553,627
Investments	44,282,116	39,607,205
Total Assets	<u>\$ 44,282,116</u>	<u>\$ 41,160,832</u>
LIABILITIES		
Accounts payable	\$ 281,655	\$ 160,553
Total Liabilities	<u>281,655</u>	<u>160,553</u>
NET ASSETS		
Net assets held in trust for OPEB	44,000,461	41,000,279
Total Net Assets	<u>44,000,461</u>	<u>41,000,279</u>
Total Liabilities and Net Assets	<u>\$ 44,282,116</u>	<u>\$ 41,160,832</u>

See the accompanying notes to financial statements.

**SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT**

**RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST  
STATEMENT OF CHANGES IN TRUST NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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	<u>2010</u>
ADDITIONS TO NET ASSETS ATTRIBUTED TO:	
Contributions	
Employer	\$ -
Investment income, net of investment expenses	<u>6,314,650</u>
Total Additions	<u>6,314,650</u>
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:	
Retirement benefits	3,087,878
Administrative expenses	<u>226,590</u>
Total Deductions	<u>3,314,468</u>
INCREASE IN NET ASSETS	3,000,182
NET ASSETS HELD IN TRUST FOR OPEB, BEGINNING OF YEAR	<u>41,000,279</u>
NET ASSETS HELD IN TRUST FOR OPEB, END OF YEAR	<u><u>\$44,000,461</u></u>

See the accompanying notes to financial statements.

# SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

## RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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### ***NOTE #1 – DESCRIPTION OF PLAN***

The following information of the San Jose/Evergreen Community College District Retirement Futuris Public Entity Investment Trust (the Trust), a component unit of the San Jose/Evergreen 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 Jose Evergreen Community College District. The Trust provides medical insurance benefits to eligible retirees and their spouses. Membership consists of 322 retirees and 71 beneficiaries currently eligible to receive benefits, and 281 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 a component unit of the San Jose/Evergreen Community College District.

#### **Contributions**

Contributions to the Trust are funded entirely by the employer. The Trust was established and may be amended by the District and the Faculty Association (AFT), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, AFT, CSEA and the unrepresented groups. There were no contributions to the plan during the fiscal year ended June 30, 2010. Premiums were funded from the prior year contribution and interest 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 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 JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT**

## **RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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In the July 1, 2009, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 7.88 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 rates ranged from an initial 8 percent to an ultimate rate of 5 percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2009, was 28 years. The actuarial value of assets was not determined in this actuarial valuation. At June 30, 2010, the Trust held net assets in the amount of \$44,000,461, which consisted of amounts on deposit with the Trust.

#### **Investment Options**

Benefit Trust, 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 in a combination of equity and fixed income investments.

#### **Plan Termination**

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

- 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 – 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 investments in mutual funds of \$44,282,116 at June 30, 2010, 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 JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

## RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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### 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, 2010, were \$226,590.

### 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 plan 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 Plan submitted a request for a Private Letter Ruling to the Internal Revenue Service in May 2009 to determine that the Plan and related trust are designed in accordance with Section 115 of the Internal Revenue Code (the IRC). The Plan is awaiting the response to the Private Letter Ruling as of the date of this report.

### *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 value of the Trust's individual investments at June 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Common Stocks	\$ 26,726,795	\$ 23,825,453
Fixed Income	17,555,321	15,781,752
Total investments	<u>\$ 44,282,116</u>	<u>\$ 39,607,205</u>

# SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

## RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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During the fiscal years ended June 30, 2010 and 2009, the Trust's investments (including gains and losses on investments bought and sold as well as held during the year) appreciated as follows:

	<u>2010</u>	<u>2009</u>
Interest income	\$ 534	\$ 769
Dividend income	1,270,528	85,124
Realized gains	1,429,104	461
Unrealized gains	3,547,674	1,113,956
Other investment income	66,810	67,041
Total investment income	<u>\$ 6,314,650</u>	<u>\$ 1,267,351</u>

Trust assets that exceeded 5% of the total assets are as follows:

	<u>2010</u>	<u>2009</u>
Investments Exceeding 5% of Plan Assets		
Blackrock Equity Dividend I	\$ 2,467,543	\$ 2,103,727
J Hancock Classic Value I	2,365,090	2,117,688
Hartford Capital Appreciation	n/a	2,083,502
Delaware Diversified Income	n/a	2,108,210
Oppenheimer International Bond	2,596,772	2,093,297
Templeton Global	3,269,408	n/a
Western Asset Core Plus Bond	3,372,482	2,098,860
	<u>\$ 14,071,295</u>	<u>\$ 12,605,284</u>

### ***NOTE #5 – ACCOUNTS PAYABLE***

The accounts payable at June 30, 2010 and 2009 consisted of benefit costs for the month of June of \$281,655 and \$160,553, respectively.

### ***NOTE #6 – ANNUAL TRUST COST AND NET TRUST OBLIGATIONS***

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 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.

**SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT**

**RETIREMENT FUTURIS PUBLIC ENTITY INVESTMENT TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

	<u>2010</u>
Annual required contribution	\$ 175,400
Interest on net OPEB obligation	3,101,000
Amortization of net OPEB obligation	<u>(3,357,800)</u>
Annual OPEB cost	(81,400)
Contributions made	<u>-</u>
Increase in net OPEB obligation	(81,400)
Net OPEB prepaid (obligation), beginning of year	<u>39,352,900</u>
Net OPEB prepaid (obligation), end of year	<u><u>\$ 39,271,500</u></u>

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Prepayment
2009	\$ 2,524,693	\$ 39,957,416	1583%	\$ 39,352,900
2010	(81,400)	-	0%	39,271,500