

**FUTURIS PUBLIC ENTITY
INVESTMENT TRUST**

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2018

San Diego

Los Angeles

**San Francisco
Bay Area**

christy**white**
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

FUTURIS PUBLIC ENTITY INVESTMENT TRUST
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board and Orange Unified Retirement Board of Authority
Futuris Public Entity Investment Trust
Orange, California

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Report on the Financial Statements

We have audited the accompanying financial statements of the Futuris Public Entity Investment Trust as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Futuris Public Entity Investment Trust's basic 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.

Auditor's Responsibility

Our responsibility is to express opinions 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.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

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State Board of Accountancy*

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Futuris Public Entity Investment Trust, as of June 30, 2018, and the 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 Futuris Public Entity Investment Trust and do not purport to, and do not, present fairly the financial position of Orange Unified School District as of June 30, 2018, 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 schedules of changes in the net OPEB liability (asset) and related ratios and annual money-weighted rate of return be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2019, on our consideration of the Futuris Public Entity Investment Trust’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the effectiveness of 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 Futuris Public Entity Investment Trust’s internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
January 29, 2019

FUTURIS PUBLIC ENTITY INVESTMENT TRUST
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

ASSETS

Cash and investments	\$ 120,153,161
Total Assets	<u>\$ 120,153,161</u>

LIABILITIES

Accrued liabilities	\$ -
Total Liabilities	<u>-</u>

NET POSITION

Restricted for postemployment benefits other than pensions	120,153,161
Total Net Position	<u>\$ 120,153,161</u>

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

FUTURIS PUBLIC ENTITY INVESTMENT TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

ADDITIONS	
Investment earnings	\$ 4,854,486
Total Additions	<u>4,854,486</u>
DEDUCTIONS	
Benefit payments	3,675,794
Administrative expense	449,007
Total Deductions	<u>4,124,801</u>
CHANGE IN NET POSITION	729,685
Net Position - Beginning	<u>119,423,476</u>
Net Position - Ending	<u>\$ 120,153,161</u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity**

The Futuris Public Entity Investment Trust (Trust) is a single-employer, defined benefits plan that covers retired employees of Orange Unified School District. The Trust was established as of July 17, 2006. The Trust provides postemployment benefits other than retirement benefits. Benefits provided are medical, dental and vision.

B. **Basis of Accounting – Measurement Focus**

The Trust's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

C. **Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position**

Cash and Cash Equivalents

The Trust's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Accrued Liabilities and Long-Term Obligations

All payables and accrued liabilities, are reported in the fiduciary fund financial statements. In general, fiduciary fund payables and accrued liabilities, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the fund. Long-term obligations associated with other postemployment benefits (OPEB) are the responsibility of the employer, Orange Unified School District and therefore reported as a long-term obligation of the District and not a liability of the Futuris Public Entity Investment Trust.

Net position

The net position of the Trust is reported as "Net position restricted for postemployment benefits other than pensions."

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and net position. Estimates also affect the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period.

NOTE 2 – PLAN DESCRIPTION

Plan administration

The Trust administers a single-employer defined benefit healthcare plan (the Plan). The Plan provides medical, dental, and vision insurance benefits to eligible retirees and their families, where applicable. Eligibility for retiree health benefits and the District's financial contribution varies by employee group and when an employee was hired. Benefits will continue for these employees according to their retiree group.

The Orange Unified School District (the District) has created a Retirement Board of Authority to oversee and run the Futuris Public Entity Investment Trust. Benefit Trust Company is the qualified Discretionary Trustee for asset and fiduciary management and investment policy development. Keenan & Associates is the Program Coordinator for the Futuris Public Entity Investment Trust providing oversight of the Futuris Program and guidance to the District.

Plan membership

Membership of the plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	926
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	<u>1,422</u>
Total number of participants**	<u>2,348</u>

*Information not provided as of June 30, 2017 valuation date

**As of the June 30, 2017 valuation date

FUTURIS PUBLIC ENTITY INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – PLAN DESCRIPTION (continued)

Benefits provided

The Trust provides retiree benefits as follows:

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Applies to	Hired after 6/30/92	Hired after 6/30/92	Hired after 6/30/92
Benefit types provided	Medical, dental and vision	None	Medical, dental and vision
Duration of Benefits	To age 65		To age 65
Required Service	15 years		5 years
Minimum Age	55		55
Dependent Coverage	No		No
District Contribution %	100%***		100%***
District Cap	Active Single Cap		Active Single Cap

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Applies to	Hired before 7/1/92	Hired before 7/1/92	Hired before 7/1/92
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	Lifetime*	Lifetime*	Lifetime*
Required Service	15 years**	10 years	5 years
Minimum Age	55	50	50/55
Dependent Coverage	Yes (family)	Spouse****	Spouse****
District Contribution %	100%	100%***	100%***
District Cap	Same as active	Same as active	Same as active

*Employees have been offered various cash and benefit options in exchange for lifetime benefits. Some employees have accepted these offers and the valuation reflects the elected option.

**Employees hired prior to 7/1/91 had a 10 year service requirement and post-65 benefits limited to Medicare Supp

***Retiree contributions required for dependent coverage, where applicable

****Plus disabled dependents, where applicable

Contributions

The contribution requirements of plan members and the District are established and may be amended by the District and the Orange Unified Education Association (OUEA), 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, OUEA, CSEA and the unrepresented groups. For the year ended June 30, 2018, the average contribution rate was 2.5 percent of covered-employee payroll. Plan members are not required to contribute to the plan.

FUTURIS PUBLIC ENTITY INVESTMENT TRUST
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2018

NOTE 3 – INVESTMENTS

Investment Policy

The Trust is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; collateralized mortgage obligations; and the County Investment Pool.

Concentrations

The Plan held the following investments which represent 5 percent or more of the Plan’s fiduciary net position:

<u>Investment</u>	<u>Fair Value</u>	<u>Percentage of fiduciary net position</u>
Mutual Fund - Fixed Income		
Blackrock Total Return - K	\$ 16,893,325	14.06%
Guggenheim Investments Macro Opportunities Inst	14,705,733	12.24%
Guggenheim Investments Investment Grade Bond Fund	17,234,911	14.34%
Prudential Funds Total Return Bond CL Q	16,891,606	14.06%
Western Asset Core Plus Bond IS	16,752,433	13.94%
Hartford World Bond - Y	8,665,943	7.21%
All other	29,009,210	24.14%
Total fiduciary net position	<u>\$ 120,153,161</u>	

Rate of Return

For the year ended, June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 6.11 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 4 – NET OPEB LIABILITY (ASSET) AND RELATED INFORMATION

The components of the net OPEB liability (asset) at June 30, 2018, were as follows:

Total OPEB liability	\$ 97,902,044
Plan fiduciary net position	(120,153,161)
Net OPEB liability (asset)	<u>\$ (22,251,117)</u>
Plan fiduciary net position as a percentage of total OPEB liability	122.73%

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Economic assumptions:

Inflation	2.75%
Salary increases	2.75%
Investment rate of return	4.70%
Healthcare cost trend rates	4.00%

Non-economic assumptions:

Mortality:

Certificated	2009 CalSTRS Mortality Table
Classified	2014 CalPERS Active Mortality for Miscellaneous Employees Table

Retirement rates:

Certificated	2009 CalSTRS Retirement Rates Table
Classified	2009 CalPERS Retirement Rates for School Employees Table

Vesting rates:

Certificated	100% at 15 years of service
Classified	100% at 15 years of service (classified employees hired after 6/30/92 no longer have District-paid retiree health benefits)
Management	100% at 5 years of service

NOTE 4 – NET OPEB LIABILITY (ASSET) AND RELATED INFORMATION (*continued*)

Actuarial assumptions (continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on a review of plan experience as of March 1, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Percentage of Portfolio	Assumed Gross Return
US Large Cap	40.000	7.7950
US Small Cap	20.000	7.7950
Long-Term Corporate Bonds	20.000	5.2950
Long-Term Corporate Bonds	10.000	5.2950
Short-Term Gov't Fixed	10.000	3.2500

Discount rate

The discount rate used to measure the total OPEB liability was 4.7 percent. Contributions have been assumed to be sufficient to fully fund the obligation over a period not to exceed 30 years. Historic 30-year real rates of return for each asset class along with the assumed long-term inflation assumption were used to set the discount rate. The expected investment return was offset by investment expenses by 20 basis points. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 4 – NET OPEB LIABILITY (ASSET) AND RELATED INFORMATION (continued)

Sensitivity of the net OPEB liability (asset) to changes in the discount rate

The following presents the net OPEB liability (asset) of the District, as well as what the District's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (3.7 percent) or 1-percentage-point higher (5.7 percent) than the current discount rate:

	1% Decrease (3.7%)	Valuation Discount Rate (4.7%)	1% Increase (5.7%)
Net OPEB liability (asset)	\$ (14,251,415)	\$ (22,251,117)	\$ (29,264,362)

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates

The following presents the net OPEB liability (asset) of the District, as well as what the District's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current healthcare cost trend rates:

	1% Decrease (3.0%)	Valuation Trend Rate (4.0%)	1% Increase (5.0%)
Net OPEB liability (asset)	\$ (34,649,424)	\$ (22,251,117)	\$ (7,621,597)

**REQUIRED SUPPLEMENTARY
INFORMATION**

FUTURIS PUBLIC ENTITY INVESTMENT TRUST
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (ASSET)
JUNE 30, 2018

	<u>June 30, 2018</u>
Total OPEB Liability	
Service Cost	\$ 1,870,425
Interest on total OPEB liability	4,435,360
Benefits payments	<u>(3,675,794)</u>
Net change in total OPEB liability	2,629,991
Total OPEB liability - beginning	<u>95,272,053</u>
Total OPEB liability - ending (a)	<u>\$ 97,902,044</u>
 Plan fiduciary net position	
Net investment income	\$ 4,854,486
Benefit payments	(3,675,794)
Administrative expenses	<u>(449,007)</u>
Net change in plan fiduciary net position	729,685
Plan fiduciary net position - beginning	<u>119,423,476</u>
Plan fiduciary net position - ending (b)	<u>\$ 120,153,161</u>
 Net OPEB liability (asset) - ending (a) - (b)	<u>\$ (22,251,117)</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 122.7%
 Covered payroll	 \$ 192,607,861
 Net OPEB liability (asset) as a percentage of covered payroll	 -11.6%

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

FUTURIS PUBLIC ENTITY INVESTMENT TRUST
SCHEDULE OF INVESTMENT RETURNS
JUNE 30, 2018

	<u>June 30, 2018</u>
Annual money-weighted rate of return, net of investment expense	6.11%

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

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Changes in the Net OPEB Liability (Asset)

This 10-year schedule is required by GASB Statement No. 74 for all single-employer and cost-sharing other postemployment benefits (OPEB) plans. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 74 was applicable. The schedule presents the sources of changes in the net OPEB liability (asset), information about the components of the net OPEB liability (asset) and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability (asset) as a percentage of the covered payroll.

Schedule of Investment Returns

This 10-year schedule is required by GASB Statement No. 74 for all defined benefit OPEB plans. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 74 was applicable. The schedule presents the annual money-weighted rate of return on OPEB plan investments for each year.

**OTHER INDEPENDENT AUDITORS'
REPORTS**

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

Independent Auditors' Report

Governing Board and Orange Unified Retirement Board of Authority
Futuris Public Entity Investment Trust
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Futuris Public Entity Investment Trust, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Futuris Public Entity Investment Trust's basic financial statements, and have issued our report thereon dated January 29, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Futuris Public Entity Investment 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 Futuris Public Entity Investment Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Futuris Public Entity Investment 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 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.

Christy White, CPA

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SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

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State Board of Accountancy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Futuris Public Entity Investment 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 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 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. 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. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
January 29, 2019

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

FUTURIS PUBLIC ENTITY INVESTMENT TRUST
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2018

FIVE DIGIT CODE

30000

AB 3627 FINDING TYPE

Internal Control

There were no financial statement findings for the year ended June 30, 2018.