

SAN DIEGO COMMUNITY COLLEGE DISTRICT

SOCIAL SECURITY ALTERNATIVE PLAN BASIC FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014



San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**SAN DIEGO COMMUNITY COLLEGE DISTRICT
SOCIAL SECURITY ALTERNATIVE PLAN
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JUNE 30, 2015 AND 2014**

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INDEPENDENT AUDITORS' REPORT

Governing Board
San Diego Community College District
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego Community College District – Social Security Alternative Plan (the “Plan”) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the San Diego Community College District – Social Security Alternative Plan’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.

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

As discussed in Note 1, the financial statements present only the Plan, and do not purport to, and do not, present fairly the financial position and results of operation of the San Diego Community College District in conformity with accounting principles generally accepted in the United States of America.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of San Diego Community College District – Social Security Alternative Plan, as of June 30, 2015 and 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated on November 13, 2015 our consideration of San Diego Community College District – Social Security Alternative Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in San Diego Community College District – Social Security Alternative Plan's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
November 13, 2015

**SAN DIEGO COMMUNITY COLLEGE DISTRICT
 SOCIAL SECURITY ALTERNATIVE PLAN
 STATEMENT OF TRUST NET POSITION
 JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Investments, at fair value:	\$ 16,568,984	\$ 15,584,771
Employer contributions receivable	15,032	30,082
Employee contributions receivable	<u>30,002</u>	<u>29,788</u>
Total assets	<u>16,614,018</u>	<u>15,644,641</u>
NET POSITION		
Net position held in trust for pension benefits	<u>\$ 16,614,018</u>	<u>\$ 15,644,641</u>

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

**SAN DIEGO COMMUNITY COLLEGE DISTRICT
SOCIAL SECURITY ALTERNATIVE PLAN
STATEMENT OF CHANGES IN TRUST NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Additions to plan net position:		
Contributions		
Employer	\$ 490,485	\$ 540,035
Employees	490,485	523,221
Total contributions	<u>980,970</u>	<u>1,063,256</u>
Investment income (loss):		
Net unrealized gain/(loss)		
in fair value of investments	136,246	465,179
Interest income	333,906	344,102
Total investment income (loss)	<u>470,152</u>	<u>809,281</u>
Total additions	<u>1,451,122</u>	<u>1,872,537</u>
Deductions from plan net position:		
Benefits paid to participants and beneficiaries	476,345	522,386
Administrative expenses	5,400	65,083
Total deductions	<u>481,745</u>	<u>587,469</u>
Net increase (decrease)	969,377	1,285,068
Plan net position:		
Beginning of year	<u>15,644,641</u>	<u>14,359,573</u>
End of year	<u>\$ 16,614,018</u>	<u>\$ 15,644,641</u>

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

**SAN DIEGO COMMUNITY COLLEGE DISTRICT
SOCIAL SECURITY ALTERNATIVE PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 – DESCRIPTION OF PLAN

General

The San Diego Community College District Social Security Alternative Plan (the “Plan”) is a defined contribution plan covering all employees of the San Diego Community College District (the “District”) who are not eligible for membership in the Public Employees Retirement System (“PERS”), State Teachers Retirement System (“STRS”) or an alternative plan. Upon employment and any re-employment, employees may become a member of the Plan. The Plan is an alternative plan to social security, and unit members would not contribute to Social Security under the Omnibus Budget Reconciliation Act of 1990.

Contributions

Contributions to the Plan are shared between the employees and the District. The District contributes 3.75% of eligible wages as defined under IRS regulations, and 3.75% of eligible wages are withheld from the employees' checks for deposit under the Plan.

Participant Account

Each participant's account is credited with the participant's contribution, the District's matching contribution, and an allocation of plan earnings after expenses. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Participant Loans

The Plan does not permit participant loans.

Investments

The Plan provides two types of investment options, the Fixed Account Option and Variable Account Option. Participants may choose to direct their investments in one or both options and change their asset allocation by completing a new investment allocation election form. If they prefer not to direct their investment of funds, their contributions will automatically be placed in the fixed interest account.

Vesting

Participants are immediately vested in their account balance.

Payment of Benefits

Upon termination of service, a participant will receive a single lump sum.

**SAN DIEGO COMMUNITY COLLEGE DISTRICT
SOCIAL SECURITY ALTERNATIVE PLAN
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015 AND 2014**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which the contribution is due. Investment income is recognized as earned. Benefits are recognized when paid.

Investment valuation and Income Recognition

Investments are reported at fair value. Quoted market value and net asset value per share in an active market are used to value investments, except for shares in the short-term investment funds, as reported by the investment custodian, are traded and reported at par. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments, and realized gains and losses of the current period include unrealized amounts from prior periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of certain assets and liabilities at the date of the financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – INVESTMENTS

At the January 29, 2015 regular board meeting, SDCCD's Board of Trustees accepted the amendment and restating of SDCCD's Social Security Alternative Plan (SSAP). The responsibilities of administering, and recordkeeping services previously provided by Variable Annuity Life Insurance Company (VALIC) transitioned to the San Diego County Schools Fringe Benefits Consortium, for the administration of the plan, and National Benefits Services, LLC (NBS), for investment and recordkeeping services, with an effective date of April 1, 2015. The Plan assets were liquidated from VALIC and transferred to NBS on June 15, 2015.

Prior to the transfer of assets to the San Diego County Schools Fringe Benefits Consortium on June 15, 2015 the assets were held and invested by the Variable Annuity Life Insurance Company ("VALIC") as trustee in pooled investments. VALIC was also the third party administrator for the Plan.

The Plan investments were in Potentia, units of interest under group fixed and variable deferred unallocated annuity contracts (the "contract" or the "contracts"), offered by VALIC. The contracts offered choices from several Variable Account Options and one Fixed Account Option, the Potentia General Account.

Money directed into Potentia's Variable Account Options was sent through VALIC's Separate Account A. The Plan participants did not invest directly in the Variable Account Options. VALIC's Separate Account A invests in the Variable Account Options on behalf of the Plan participants. VALIC acted as self custodian for the mutual fund shares owned through the Separate Account. VALIC Separate Account A is made up of "Divisions." Eighteen Divisions represent the Variable Account Options in the contracts. Each of these Divisions invested in a different Mutual Fund (an "underlying Fund") made available through the contracts. VALIC Separate Account A is registered with the Securities and Exchange Commission (the "SEC") as a unit investment trust under the Investment Company Act of 1940 (the "1940 Act"), as amended.

**SAN DIEGO COMMUNITY COLLEGE DISTRICT
 SOCIAL SECURITY ALTERNATIVE PLAN
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015 AND 2014**

NOTE 3 – INVESTMENTS (continued)

Investment in a Division of VALIC Separate Account A was represented by units of interest issued by VALIC Separate Account A. On a daily basis, the units of interest issued by VALIC Separate Account A were revalued to reflect that day’s performance of the underlying Fund minus any applicable fees and charges to VALIC Separate Account A.

The Plan has one Fixed Account Option, the Potentia General Account that is part of the general account assets of VALIC. The Potentia General Account provides fixed-return investment growth. This account is invested in accordance with applicable state regulations and guaranteed to earn at least a minimum rate of interest, and that interest is paid at a declared rate.

During the Plan years, investments (including realized gains and losses on investments and unrealized appreciation (depreciation) on investments held) appreciated in value as follows:

	2015	2014
Net realized and unrealized investments gain	\$ 136,246	\$ 465,179

Credit Risk

The Plan mitigates credit risk in its portfolio by offering various annuity contracts and limiting the concentration of investments within these contracts. The participants have the option to reallocate their portfolio. As of June 30, 2015 and June 30, 2014, investments in Potentia General Account represent 73% and 79% of total portfolio, respectively. Potentia General Account is a group fixed annuity contract, which is not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The majority of the plan investments are in Potentia General Account; 73% and 79% at June 30, 2015, and June 30, 2014, respectively. The Potentia General Account provides fixed-rate earnings and guarantees safety of principal.

Custodial Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments. The guarantees of Potentia General Account principal are backed by the claims-paying ability of VALIC, and not the Separate Account. Insurance obligations under contracts issued by VALIC are guaranteed by American Home Assurance Company, an affiliate of VALIC. American Home is a stock property-casualty insurance company incorporated under the law of the State of New York and is an indirect wholly owned subsidiary of American International Group, Inc. (“AIG.”). Insurance obligations include, without limitation, contract value invested in the fixed account option. The guarantee does not guarantee contract value or the investment performance of the variable account options available under the contracts. The guarantee provides that VALIC contract owners can enforce the guarantee directly.

**SAN DIEGO COMMUNITY COLLEGE DISTRICT
SOCIAL SECURITY ALTERNATIVE PLAN
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015 AND 2014**

NOTE 4 – CONTRIBUTIONS RECEIVABLE

At June 30, 2015 and 2014, the total balance of contributions receivables was \$45,034 and \$59,869, respectively.

NOTE 5 – PARTY-IN-INTEREST

Plan investments are investment contracts managed by VALIC. VALIC is the trustee as defined by the plan and, therefore, these transactions qualify as party-of-interest transactions.

NOTE 6 – PLAN TERMINATION

The Plan is administered in accordance with the provisions of the plan document, which provides for plan termination. It states that the District expects to continue this plan indefinitely, but reserves the right to fully or partially terminate at any time without the consent of any participant or beneficiary. If the Plan is fully or partially terminated, the assets remaining in the Plan will be distributed to participants and their beneficiaries as soon as administratively feasible.

NOTE 7 – TAX STATUS

VALIC's Volume Submitter Governmental Profit Sharing Plan received a tax determination letter from the Internal Revenue Service (the "IRS") which indicates that VALIC's Volume Submitter Governmental Profit Sharing Plan meets the requirements of Section 401(a) of the Code and is exempt from taxation under Section 501(a) of the Code on January 30, 2006. The Plan's Basic Plan Document obtained an Opinion Letter issued by the IRS confirming that the Plan is a governmental plan as defined under Code Section 414(d) and that it satisfies Section 401(a). Additionally, the letter confirms the Plan is not subject to the Employee Retirement Income & Security Act of 1974 ("ERISA"). Although certain administrative and operational amendments have been made to the Plan since receiving the determination letter, the plan administrator believes that the Plan is currently designed and being operated in compliance with the Code. Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the plan and to recognize a tax liability (or asset) when the plan has taken an uncertain position that likely would not be sustained upon examination by the tax authorities. The plan administrator has analyzed the tax positions taken by the plan, and has concluded that as of June 30, 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to 2008.

NOTE 8 – RISKS AND UNCERTAINTIES

The plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of trust net position.