



CalSavers

**CalSavers Program Fund Audit Report
June 30, 2019**





BASIC FINANCIAL STATEMENTS
June 30, 2019
(With Independent Auditor's Report Thereon)



TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR’S REPORT	1 – 3
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)	6 – 12
BASIC FINANCIAL STATEMENTS	
Statement of Fiduciary Net Position	14
Statement of Changes in Fiduciary Net Position	14
Notes to Financial Statements	15 – 25
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 <i>GOVERNMENT AUDITING STANDARDS</i>	27 – 28



INDEPENDENT AUDITOR'S REPORT

Members of the California Secure Choice Retirement Savings Investment Board
Ascensus College Savings Recordkeeping Services, LLC, Program Administrator
CalSavers Retirement Savings Program

Report on the Basic Financial Statements

We have audited the accompanying statement of fiduciary net position and statement of changes in fiduciary net position of the **CalSavers Retirement Savings Program**, also known as **CalSavers (Program)**, as of June 30, 2019 and for the period from January 2, 2019 through June 30, 2019, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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

Basis for Qualified Opinion

The California Secure Choice Retirement Savings Trust Act (the Act) requires employers that do not offer a qualified retirement plan (as defined in the Act) to facilitate the Program by providing their eligible employees with the opportunity to save for retirement through payroll deductions. We are unable to determine that every employer required by the Act to offer the Program to employees is actually doing so. Additionally, we did not perform any audit procedures to obtain an understanding of the design and implementation of internal control over payroll processing, calculation of employee contributions and remittance of employee contributions at the participating employers, and we did not test employer payroll records to determine that employee contributions were accurately calculated based on participating employee contribution elections, that the amount remitted to the Program Administrator was complete and accurate or that all eligible employees who had not opted out were participating. While we were able to obtain sufficient evidence that the amount of contributions reported on the statement of changes in fiduciary net position accurately represents amounts actually remitted by employers to the Program, these matters preclude us from concluding that the amount of contributions reported on the statement of changes in fiduciary net position is complete and accurately represents employee contributions based on employee contribution elections.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the basic financial statements referred to on the preceding page present fairly, in all material respects, the fiduciary net position of the Program as of June 30, 2019, and the changes in fiduciary net position for the period from January 2, 2019 through ended June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the Program is a private purpose trust fund of the state of California and is one of two funds that comprise the California Secure Choice Retirement Savings Trust (the Trust). These basic financial statements present only the activities and balances attributable to the Program and do not purport to, and do not, present fairly the fiduciary net position or changes in fiduciary net position of the Trust or any other fiduciary funds of the state of California. Our opinion is not modified with respect to this matter.

Other Matter – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis on pages 6 through 12 be presented to supplement the Program’s basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, as it is considered 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

Other Matter – Required Supplementary Information (Continued)

provide any assurance on the information in management’s discussion and analysis because the limited procedures we performed do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019 on our consideration of the Program’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 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 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 Program’s internal control over financial reporting and compliance.

Landmark PLC
Certified Public Accountants

December 13, 2019
Little Rock, Arkansas

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Management's Discussion and Analysis
(Unaudited)



(A Private Purpose Trust Fund of the State of California)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2019**

This management's discussion and analysis is intended to provide readers an objective discussion of the financial statements of the **CalSavers Retirement Savings Program**, also known as **CalSavers** (Program) as of June 30, 2019 and for the period from January 2, 2019 through June 30, 2019. This discussion and analysis, which is supplementary information required by the Governmental Accounting Standards Board (GASB), is intended to provide a highly summarized overview of the Program's assets, liabilities, fiduciary net position and changes in fiduciary net position and should be read in conjunction with the Program's financial statements and notes thereto, which are included on pages 15 through 25.

* * * * *

The California Secure Choice Retirement Savings Trust Act (SB 1234) (Act) established the California Secure Choice Retirement Savings Trust (Trust) to be administered by the California Secure Choice Retirement Savings Investment Board (Board). The Act requires eligible employers to offer a payroll deposit retirement savings arrangement so that eligible employees are able to contribute a portion of their salary or wages to a retirement savings program account in the Program, unless the employer already offers a qualified retirement plan. Eligible employees are automatically enrolled in the Program, unless the employee opts out, within 30 days of receipt of Program information. Employee participation in the Program is completely voluntary, and employees can opt out at any time. Employers make no contribution to participant accounts and are prohibited from encouraging or discouraging employee participation in the Program, requiring employee participation in the Program or restricting employee participation in the Program.

The Board consists of nine members, with the California State Treasurer serving as chair. The other members include the Director of Finance, the State Controller, an individual with retirement savings and investment expertise appointed by the Senate Committee on Rules, an employee representative appointed by the Speaker of the Assembly, a small business representative appointed by the Governor, a public member appointed by the Governor and two additional members appointed by the Governor. The Board and the program administrator and staff, including contracted administrators and consultants, must discharge their duties as fiduciaries with respect to the Trust solely in the interest of the Program participants.

The Trust shall be administered by the Board for the purpose of promoting greater retirement savings for California private employees in a convenient, voluntary, low-cost and portable manner. Any contributions paid by employees into the Trust shall be used exclusively for the purpose of paying benefits to the participants of the Program, for the cost of administration of the Program and for investments made for the benefit of the Program. The Trust is an instrumentality of the State of California (State).

The Program is designed as a payroll-deduction, automatic-enrollment program which utilizes individual retirement accounts to hold participant contributions. Participant accounts are portable and remain the sole possession of the individual participant. Contributions held within the Trust shall not be comingled with any other State funds. The State has no claim to or against, or interest in, assets held in the Trust.



(A Private Purpose Trust Fund of the State of California)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2019**

As required by statute, the Board has adopted a third-party administrator operational model that limits employer interaction and transactions with the employee to the extent feasible. The Board has contracted with Ascensus College Savings Recordkeeping Services, LLC (Ascensus) to provide Program administration and recordkeeping services. Ascensus is responsible for day-to-day Program operations, such as establishing and maintaining accounts for participating employees, processing participant instructions as directed, issuing Program account statements, responding to employer and participant inquiries, and fulfilling Internal Revenue Service (IRS) reporting requirements.

Financial Highlights

The following are financial highlights of the Program:

- As of June 30, 2019, 132 employers had registered with the Program, and 45 had begun remitting payroll contributions to the Program.
- As of June 30, 2019, there were a total of 1,594 funded accounts in the Program, with an average account balance of \$188.
- As of June 30, 2019, the Program's fiduciary net position totaled \$384,076 (inclusive of \$84,445 in assets that were used to seed each investment option and belong to Ascensus).
- As of June 30, 2019, contributions to the Program totaled \$386,606 (inclusive of \$75,000 in seed money provided by Ascensus), with \$13,391 distributed from participant accounts.
- Net investment income earned on the Program's investments totaled \$11,549 for the period from January 2, 2019 through June 30, 2019.
- As of June 30, 2019, administrative fees totaled \$688. These fees, which are calculated based on the net position of each investment option, are paid to Ascensus and the Board for performing oversight, administrative and investment duties.

Overview of the Basic Financial Statements

The Program's basic financial statements comprise the statement of fiduciary net position, the statement of changes in fiduciary net position and the related notes to the financial statements. The statement of fiduciary net position presents information on the Program's assets and liabilities, with the difference between them representing net position held in trust for Program participants. The statement of changes in fiduciary net position shows how the Program's fiduciary net position changed during the reporting period. The notes to the financial statements provide additional explanatory information about the amounts presented in the financial statements. It is essential that readers of this report consider the information in the notes to obtain a full understanding of the Program's financial statements.



(A Private Purpose Trust Fund of the State of California)

**MANAGEMENT’S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2019**

Overview of the Basic Financial Statements (Continued)

The Program is included in the financial reporting entity of California as a private purpose trust fund. Private purpose trust funds are a type of fiduciary fund and are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations or other governments. A fiduciary fund is used to report assets held by a government in a trust or agency capacity for others and cannot be used to support the government’s own programs.

The Program’s basic financial statements are prepared in accordance with accounting and financial reporting standards for governmental entities set forth by the GASB. As required under generally accepted accounting principles applicable to fiduciary fund types, the Program’s basic financial statements are prepared using the accrual basis of accounting. Mutual funds are reported at fair value. All investment transactions are recorded on a trade-date basis. Changes in the fair value of investments, along with realized gains or losses, are reported as net appreciation or depreciation on the statement of changes in fiduciary net position. Dividends and capital gain distributions are recorded on the ex-dividend date rather than when they are received. Contributions are recognized when they are received, provided enrollment in the Program has been successfully completed, and distributions are recognized when the request has been received and approved for payment. Fees are recognized in the period when the related services are provided, regardless of when cash is paid.

Financial Analysis

Fiduciary Net Position

The following condensed statement of fiduciary net position provides a snapshot of the overall financial position of the Program:

Total Assets	\$ 389,936
Total Liabilities	<u>5,860</u>
Fiduciary Net Position	<u><u>\$ 384,076</u></u>

Fiduciary net position represents the cumulative total of contributions from participants since the Program’s inception, increased (decreased) by net investment income (loss), and decreased by distributions to participants and fees.

Investments, which totaled \$384,180 as of June 30, 2019, represent approximately 99% of the Program’s total assets. Account owners are able to direct investment of their contributions into investment options, which are invested in one or more underlying mutual funds. See the Investment Commentary on pages 9 through 11 for more information about the Program’s investments.



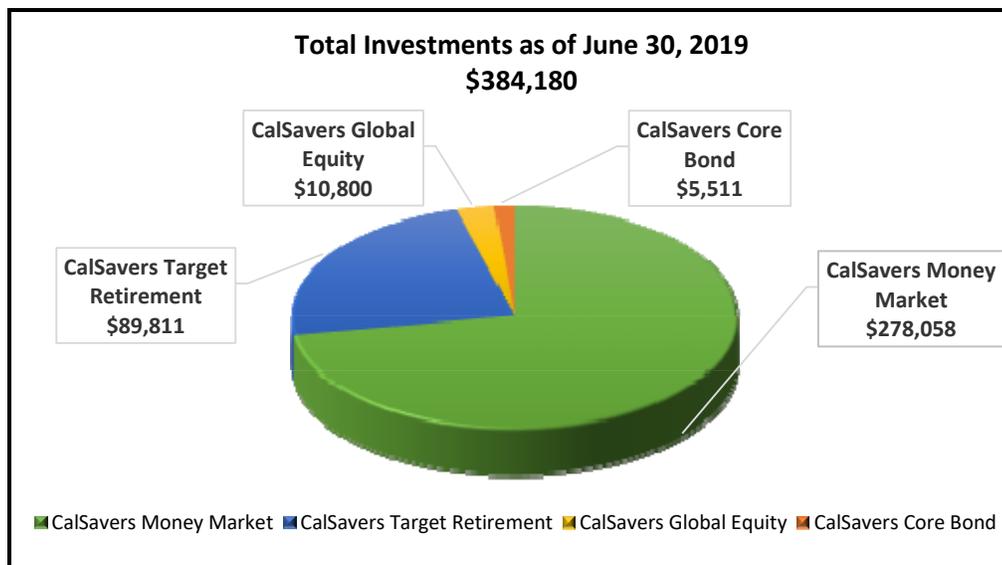
(A Private Purpose Trust Fund of the State of California)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2019**

Financial Analysis (Continued)

Fiduciary Net Position (Continued)

At June 30, 2019, the Program's assets are invested in the following investment options:



Other assets, which totaled \$5,756 as of June 30, 2019, comprise amounts to be invested or distributed on behalf of participants. The Program's liabilities, which totaled \$5,860 as of June 30, 2019, comprise accrued fees, payable for distributions approved but not yet paid and payables for underlying mutual fund purchase transactions.

Changes in Fiduciary Net Position

The following condensed statement of changes in fiduciary net position summarizes how the Program's net position changed during the period of January 2, 2019 to June 30, 2019:

Contributions	\$ 386,606
Net Investment Income	11,549
Distributions	(13,391)
Fees	(688)
	<hr/>
Net Increase	384,076
Fiduciary Net Position (Beginning of Period)	<hr/> -
Fiduciary Net Position (End of Period)	<hr/> <u>\$ 384,076</u>



(A Private Purpose Trust Fund of the State of California)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2019**

Investment Commentary

The following provides a brief description of the Program's investment options. More complete information can be found in the Program disclosures, or each mutual fund's fact sheet, prospectus and annual report.

The Program offers a range of investment options from conservative to aggressive, designed to appeal to varying levels of risk tolerance, time horizons and return expectations. In exchange for contributions to the Program, participants receive units of participation in the Trust. These units are municipal securities.

Each investment option, with the exception of the CalSavers Global Equity Investment Option, invests in a single underlying mutual fund. The CalSavers Global Equity Investment Option invests in a blend of two underlying mutual funds. Participants do not invest directly in mutual funds, and they may not influence the selection of mutual funds comprising each investment option.

The Board has contracts with State Street Global Advisors Trust Company (SSGA) to provide the underlying mutual funds that comprise each investment option in the Program ⁽¹⁾.

The assets of the CalSavers Money Market Fund Investment Option are invested in the State Street US Government Money Market Fund, which has an investment objective of maximizing current income, to the extent that it remains consistent with the preservation of capital and liquidity, by investing in US dollar-denominated money market securities. This option is the default investment for the first \$1,000 of each participant's contributions.

The CalSavers Target Retirement Funds are investment options that correspond with the year closest to when a participant will reach the target retirement age, defined as age 65. Each Target Retirement Fund has a specific "target date" (e.g., 2035, 2045, 2055) and invests in an underlying mutual fund that is primarily composed of a mix of stock and bond funds, with some publicly-traded real estate exposure included in target date years closer to retirement. The Target Retirement Funds seek to provide for retirement outcomes based on quantitatively measured risk, and are broadly diversified across global asset allocations that automatically become more conservative over time as an investor nears target retirement age. This option is the default investment for participant contributions subsequent to the first \$1,000, capital growth and income over the long-term; the later dated funds will emphasize capital growth primarily whereas funds approaching their retirement date will become more conservative, as they seek current income and, secondarily, capital growth.

The assets of the CalSavers Core Bond Fund Investment Option are invested in the State Street Aggregate Bond Index Fund, which has an investment objective of tracking as closely as possible, before fees and expenses, the total return of an index composed of the total US investment grade bond market.

⁽¹⁾ The board contracted with New Investment Management Limited to provide a fifth investment option which was made available to participants beginning after the end of the reporting period, July 1, 2019.



(A Private Purpose Trust Fund of the State of California)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2019**

Investment Commentary (Continued)

The assets of the CalSavers Global Equity Fund Investment Option are invested in the State Street Global Equity ex-US Index Fund and the State Street Equity 500 Index Fund. The goal of the CalSavers Global Equity Fund is to provide investment results that, before fees and expenses, correspond generally to the total return performance of a broad-based index of domestic and foreign equity markets. As mentioned, the CalSavers Global Equity Fund Investment Option is the only investment option that invests in more than one underlying fund. Rather, it consists of a US investment offering as well as a non-US investment offering with weights of each assigned based on the US/Non-US components of the MSCI ACWI Index.

Portfolio Performance

All investment options have an inception date of January 2, 2019. During the period from inception through June 30, 2019, all underlying mutual funds experienced positive returns. Throughout the investment period observed, equity markets experienced exceptionally strong returns driving strong performance in the Global Equity Fund and the longer dated Target Retirement Funds. Domestic markets delivered double-digit returns nearing 18%, while non-US markets delivered nearly 14%. For those longer dated target date funds that have the ability to be more aggressive and therefore take on greater exposure to equity markets, this was a tailwind. Similarly, the Global Equity Fund discussed in the preceding paragraph, which consists of 100% exposure to equity markets, saw the strongest returns within the options listed.

Returns for each of the investment options and their associated underlying mutual fund(s) for the period from inception through June 30, 2019 are listed in the following table. Returns are net of investment manager fees only:

Investment Option and Underlying Fund(s)	Return
CalSavers Money Market Fund	0.7%
State Street Instl US Gov MM Fund – GVMXX	0.7%
CalSavers Core Bond Fund	5.6%
State Street Agg Bond Index Fund - SSFEX	5.6%
CalSavers Global Equity Fund	17.6%
State Street Equity 500 Index Fund – SSYX	18.5%
State Street Global ex-US Index Fund - SSDLX	13.7%
CalSavers Target Retirement Fund	8.9%
State Street Target Ret Fund – SSFOX	8.9%
CalSavers Target Retirement Fund 2015	9.4%
State Street Target Ret 2015 Fund – SSBHX	9.4%
CalSavers Target Retirement Fund 2020	11.2%
State Street Target Ret 2020 Fund – SSBOX	11.2%



(A Private Purpose Trust Fund of the State of California)

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2019**

Investment Commentary (Continued)

Portfolio Performance (Continued)

Investment Option and Underlying Fund(s)	Return
CalSavers Target Retirement Fund 2025	12.9%
State Street Target Ret 2025 Fund – SSBSX	12.9%
CalSavers Target Retirement Fund 2030	13.9%
State Street Target Ret 2030 Fund – SSBYX	13.9%
CalSavers Target Retirement Fund 2035	14.5%
State Street Target Ret 2035 Fund – SCKX	14.5%
CalSavers Target Retirement Fund 2040	15.2%
State Street Target Ret 2040 Fund – SSCQX	15.2%
CalSavers Target Retirement Fund 2045	15.7%
State Street Target Ret 2045 Fund – SDEX	15.7%
CalSavers Target Retirement Fund 2050	15.8%
State Street Target Ret 2050 Fund – SSDLX	15.8%
CalSavers Target Retirement Fund 2055	15.7%
State Street Target Ret 2055 Fund – SSDQX	15.7%
CalSavers Target Retirement Fund 2060	15.9%
State Street Target Ret Fund – SSDYX	15.9%
CalSavers Target Retirement Fund 2065	15.9%
State Street Target Ret Fund – SSDYX	15.9%

Basic Financial Statements



STATEMENT OF FIDUCIARY NET POSITION
June 30, 2019

ASSETS	
Investments	\$ 384,180
Cash and cash equivalents	5,756
Total Assets	<u>389,936</u>
LIABILITIES	
Payables for investments purchased	4,521
Distributions payable	1,127
Accrued fees	212
Total Liabilities	<u>5,860</u>
FIDUCIARY NET POSITION	<u><u>\$ 384,076</u></u> ⁽¹⁾

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Period from January 2, 2019 through June 30, 2019

ADDITIONS	
Contributions	\$ 386,606 ⁽²⁾
Investment income:	
Dividend income	1,063
Net appreciation in fair value of investments	10,486
Net investment income	11,549
Total Additions	<u>398,155</u>
DEDUCTIONS	
Distributions	13,391
Fees	688
Total Deductions	<u>14,079</u>
NET INCREASE	<u>384,076</u>
FIDUCIARY NET POSITION, BEGINNING OF PERIOD	<u>-</u>
FIDUCIARY NET POSITION, END OF PERIOD	<u><u>\$ 384,076</u></u> ⁽¹⁾

(1) Includes seed accounts totaling \$84,445 attributable to the Program Administrator.

(2) Includes \$75,000 of seed money contributed by the Program Administrator to establish the investment options.

See accompanying notes to financial statements.



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS

The following provides a brief description of the CalSavers Retirement Savings Program, also known as CalSavers (the Program). For more information and disclosures about the Program, refer to the Program's website at www.calsavers.com or call 1-855-650-6918.

(a) General

The California Secure Choice Retirement Savings Trust Act (SB 1234) (the Act) established the Program as a retirement savings program in the form of an automatic enrollment payroll deduction Roth Individual Retirement Account (Roth IRA) for the purpose of promoting greater retirement savings for California private sector employees in a convenient, voluntary, low-cost and portable manner. The Program uses payroll withholding to help workers who do not have access to an employer-sponsored plan to save their own money for retirement. The Act requires certain employers to facilitate the Program by providing their eligible employees with the opportunity to save through payroll deductions, unless the employer offers a qualified plan, as specified in the Act. Eligible employees are automatically enrolled into the Program, unless they opt out of the Program within 30 days after notice of their enrollment has been provided to them. Employee participation in the Program is completely voluntary. The employers make no contributions to participant accounts. Subject to laws and regulations applicable to Roth IRA accounts, participants may make tax-free withdrawals of contributions and qualified distributions of earnings.

The California Secure Choice Retirement Savings Investment Board (the Board), also established under the Act, is responsible for designing, implementing and administering the Program. The Board consists of the California State Treasurer, Director of Finance (or the director's designee), the State Controller, an individual with retirement savings and investment expertise appointed by the Senate Committee on Rules, an employee representative appointed by the Speaker of the Assembly, a small business representative appointed by the Governor, a public member appointed by the Governor and two additional members appointed by the Governor. The Board intends that the Program be operated in such a manner as to not be considered a pension plan under Title I of the Employee Retirement Income Security Act (ERISA). Changes in or interpretations of laws and regulations could have a significant impact on the structure of the Program.

Pursuant to the Act, contributions to the Program are held in the California Secure Choice Retirement Savings Trust (the Trust). The Board administers the Trust.



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS (Continued)

(a) General (Continued)

The Trust is segregated into two funds – the Program Fund and the Administrative Fund. Any contributions paid into the Trust are held in the Program Fund to be used exclusively for the purpose of paying benefits to participants, for covering the costs of administration of the Program and for investments made for the benefit of the Program. Transfers may be made from the Program Fund to the Administrative Fund for the purpose of paying costs associated with administration of the Trust, such as Board operations costs, program administrator and investment expenses and costs associated with enforcement and compliance (see Note 4 for disclosures regarding the state fee). It is intended that the Trust be a self-sustaining trust with sufficient resources to pay all costs related to administration of the Trust; however, funding for initial staff and other operating costs totaling \$3,679,667 as of June 30, 2019, has been paid by the state's General Fund. The Board is responsible for repaying such amount to the General Fund out of the Administrative Fund, and such amount is not a liability of the Program.

The Program is included in the financial reporting entity of California as a private purpose trust fund. Private purpose trust funds are a type of fiduciary fund and are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations or other governments. A fiduciary fund is used to report assets held by a government in a trust or agency capacity for others and cannot be used to support the government's own programs.

These basic financial statements are intended to present only the fiduciary net position and changes therein of the Program and do not purport to, and do not, present balances and activities attributable to the Administrative Fund, nor do they present the fiduciary net position or changes therein of the Trust or any other fiduciary funds of the state of California.

The Program offers a range of investment options to meet the risk tolerance and investment objectives of participants. Each investment option invests in a single underlying mutual fund, except for the CalSavers Global Equity Fund Investment Option which invests in two underlying mutual funds. Participants purchase units of investment options, not shares of the underlying mutual fund. These units are municipal fund securities.

(b) Program Administration

The Board has entered into a contract with Ascensus College Savings Recordkeeping Services, LLC (ACSR), pursuant to which ACSR serves as the Program Administrator. ACSR and its affiliates are responsible for day-to-day Program operations, such as establishing accounts for participating employees, processing contributions and participant instructions as directed, issuing CalSavers account statements and fulfilling Internal Revenue Service (IRS) reporting requirements. See Note 4 for



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS (Continued)

(b) Program Administration (Continued)

disclosures regarding compensation paid to ACSR for these services.

Certain employees of the California State Treasurer's Office (Treasurer's Office) perform marketing and other administration services for the Program. Costs incurred by the Treasurer's Office related to the Program are not reported as expenses in the Program's basic financial statements.

(c) IRA Custodian

Ascensus Trust Company, an affiliate of ACSR, serves as the IRA Custodian responsible for providing a cashiering function and other responsibilities under Section 408(a) and other applicable provisions of the Internal Revenue Code.

(d) Municipal Securities Custodian

The Bank of New York Mellon is the Program's custodian of the municipal securities (i.e., the units issued to participants) and is responsible for maintaining the assets that are contributed to each investment option.

(e) Investment Managers

SSGA Funds Management, Inc. (State Street) manages the underlying mutual funds that comprise each investment option.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

In accordance with accounting principles generally accepted in the United States of America applicable to fiduciary fund types prescribed by the Governmental Accounting Standards Board (GASB), the Program's basic financial statements are prepared using the flow of economic resources measurement focus and accrual basis of accounting.

(b) Income Taxes

The Program is exempt from federal and state income tax.

(c) Estimates

The preparation of basic financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments

The Program invests in mutual funds, which are reported at fair value, based on net asset value per share as of the close of the New York Stock Exchange (NYSE) on the reporting date. Net realized and unrealized gains (losses) are included in “net appreciation (depreciation) in fair value of investments” on the statement of changes in fiduciary net position. Purchases and sales of shares of mutual funds are recorded on a trade-date basis. Dividends and capital gain distributions are recorded on the ex-dividend date and are automatically reinvested in additional shares of the respective mutual fund.

Accounting standards categorize fair value measurements according to a hierarchy based on valuation inputs that are used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable. The fair values of the mutual funds in which the Program invests are determined using Level 1 inputs.

(e) Cash and Cash Equivalents

Cash and cash equivalents generally include participating employee contributions that have not yet been invested in the underlying mutual funds and/or redemption proceeds from mutual fund sales to satisfy distribution requests that have not yet been processed.

Contribution and distribution transactions are processed through clearing accounts held at JPMorgan Bank, N.A. in the name of the IRA Custodian for the benefit of participants. The combined bank balance of these accounts at June 30, 2019, totaled \$12,171. Balances in these accounts are insured by the Federal Deposit Insurance Corporation (FDIC), subject to applicable FDIC limits. Amounts in excess of FDIC insurance limits are not collateralized or covered by supplementary insurance.

(f) Contributions

For employees who have not opted out of the Program, the employer deducts contributions from payroll based on each participating employee’s current contribution elections, which can be either the default contribution elections set by the Program or alternate contribution elections selected by the employee, and transfers those payroll deductions to the Program Administrator. Amounts deducted are required to be transmitted to the Program Administrator within seven business days after the end of the payroll period during which the amounts were deducted. Contributions that are received by the Program Administrator from employers in good order prior to the close of the New York Stock Exchange (NYSE) are credited to participant accounts and recorded as increases in fiduciary net position on the same business day.



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Contributions (Continued)

If an employee has not opted out of the Program or has not chosen alternate elections, he or she will be enrolled using the following default contribution elections:

- The initial rate of contribution to the Program is 5% of compensation.
- Contribution rates will be automatically increased by 1% on January 1 each year, beginning January 1, 2020, until a maximum of 8% is reached.
- The first \$1,000 of contributions will be invested in the CalSavers Money Market Fund Investment Option.
- After the first \$1,000 of contributions, if no alternate contribution election is made, contributions will begin to be invested in the CalSavers Target Retirement Fund based on the year of retirement of the participant (assuming a retirement age of 65).

Employees who do not want to enroll at the default contribution rate of 5% may change their contribution elections. The minimum contribution rate is 1%, and the maximum contribution rate is 100% of available wages, subject to federal annual contribution limits. Employees may also choose to opt out of auto-escalation.

Additionally, participants who do not want to use the default election investment options may choose the investment option(s) into which their contributions will be invested. Although participants can select the investment options in which their contributions are invested, they cannot direct the selection of the mutual funds that comprise each investment option.

Employee contributions are invested in one or more of the following investment strategies, depending upon employee contribution elections:

Money Market Fund is an investment option with the investment objective of maximizing current income, to the extent consistent with the preservation of capital and liquidity, by investing in an underlying fund that invests in US dollar denominated money market securities.



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Contributions (Continued)

Target Retirement Funds are investment options that correspond with the year closest to when the participant will be 65 or plans to retire. Each Target Retirement Fund has a specific “target date” (e.g., 2035, 2045, 2055) and invests in an underlying fund that includes a mix of stock and bond funds. These investment options seek to provide for retirement outcomes based on quantitatively measured risk. The investment options will be broadly diversified across global asset allocations, becoming more conservative over time as an investor nears target retirement age.

Core Bond Fund is an investment option with the investment objective of tracking as closely as possible, before fees and expenses, the total return of an index composed of the total US investment grade bond market.

Global Equity Fund is an investment option that seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of a broad-based index of domestic and foreign equity markets over the long term.

(g) Distributions

Participants may request distributions from their accounts online, by phone or by mail.

Distributions are recorded as deductions from fiduciary net position on the date the request is received if such request is found to be in good order and is received prior to the close of the NYSE.

(h) Exchanges

Transfers of funds between investment options due to participants changing their investment elections are referred to as “exchanges.” The amounts of contributions and distributions reported on the statement of changes in fiduciary net position do not include exchanges, as these types of transactions have no impact on the overall financial position of the Program.

(i) Unit Valuation

Each participant’s full and/or fractional interest in an investment option is evidenced by a unit. The net asset value of a unit is calculated daily based on the fair value of the mutual fund(s) held in that investment option, adjusted for the effects of transactions such as accrued fees and investment income. The value of any individual account is determined by multiplying the number of units in an investment option attributable to that participant’s account by the net asset value per unit of that investment option.



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 3: INVESTMENTS

(a) Investments by Type

The Program's mutual funds and their respective fair values at June 30, 2019, are as follows:

<u>Investment Option</u>	<u>Underlying Mutual Fund</u>	<u>Fair Value</u>
CalSavers Money Market Fund	State Street Institutional US Government Money Market Fund	\$ 278,058
CalSavers Target Retirement Fund	State Street Target Retirement Fund	5,847
CalSavers Target Retirement Fund 2015	State Street Target Retirement Fund 2015	5,472
CalSavers Target Retirement Fund 2020	State Street Target Retirement Fund 2020	6,183
CalSavers Target Retirement Fund 2025	State Street Target Retirement Fund 2025	5,769
CalSavers Target Retirement Fund 2030	State Street Target Retirement Fund 2030	10,068
CalSavers Target Retirement Fund 2035	State Street Target Retirement Fund 2035	7,602
CalSavers Target Retirement Fund 2040	State Street Target Retirement Fund 2040	11,301
CalSavers Target Retirement Fund 2045	State Street Target Retirement Fund 2045	7,839
CalSavers Target Retirement Fund 2050	State Street Target Retirement Fund 2050	6,501
CalSavers Target Retirement Fund 2055	State Street Target Retirement Fund 2055	7,692
CalSavers Target Retirement Fund 2060	State Street Target Retirement Fund 2060	7,293
CalSavers Target Retirement Fund 2065	State Street Target Retirement Fund 2065	8,244
CalSavers Core Bond Fund	State Street Aggregate Bond Index Fund	5,511
CalSavers Global Equity Fund	State Street Global Equity ex-US Index Fund	4,856
	State Street Equity 500 Index Fund	<u>5,944</u>
Total Investments		<u>\$ 384,180</u>



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 3: INVESTMENTS (Continued)

(b) Net Appreciation in Fair Value of Investments

The following table calculates the net change in the fair value of the Program’s investments during the period from January 2, 2019 through June 30, 2019:

Fair value of investments, end of period	\$ 384,180
Less cost of investments purchased and investment income reinvested during the period	(380,691)
Plus proceeds from investments sold during the period	6,997
Less fair value of investments, beginning of period	<u>-</u>
Net appreciation in fair value of investments	<u><u>\$ 10,486</u></u>

(c) Investment Risk

The mutual funds in which the Program invests include in their asset holdings various investment securities, such as corporate debt and equity securities, obligations of the US government and government agencies and international equity securities. These securities are exposed to interest rate, market and credit risk, and it is at least reasonably possible that changes in their fair values could occur in the near term, materially affecting participant balances and the amounts reported in the Program’s basic financial statements.

Accounting standards require that certain disclosures be made related to the Program’s investment policy and its exposure to credit risk, interest rate risk and foreign currency risk, which are included in the paragraphs that follow.

Investment Policy

The Board has adopted an investment policy statement that is intended to enable the Board to make Program investment decisions according to an established process that reflects the Board’s set of investment beliefs. The policy outlines the underlying philosophies and processes for the selection, monitoring and evaluation of the investment options offered to participants, the underlying investments of the investment options and the selected investment managers providing the underlying investments. Specifically, the policy defines the Program’s investment objectives, defines the roles and responsibilities of various parties, describes the types of investment options offered under the Program and the criteria for selecting underlying investments and investment managers, and establishes performance measurement and monitoring procedures.

There are no provisions of the policy that specifically address credit risk, concentrations of credit risk or foreign currency risk.



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 3: INVESTMENTS (Continued)

(c) Investment Risk (Continued)

Credit Risk

Certain mutual funds in which the Program invests may include in their asset holdings bonds issued by corporations, foreign governments, the US government and its agencies and instrumentalities. Through its investment in these mutual funds, the Program may be indirectly exposed to credit risk, which is the risk that a bond issuer will fail to pay interest and principal, when due, as a result of adverse market or economic conditions.

The Program’s mutual funds are not exposed to custodial credit risk, which is the risk that the Program will not recover the value of investments that are in the possession of an outside party.

None of the mutual funds in which the Program invests are rated by a nationally recognized statistical rating organization, except for the State Street Institutional US Government Money Market Fund, which is rated AAAM by Standard & Poor’s and AAAMMF by Fitch.

Interest Rate Risk

Certain mutual funds in which the Program invests may be exposed to interest rate risk due to their underlying asset holdings being composed of bonds or other fixed income securities. Interest rate risk is the risk that changes in interest rates will adversely impact the fair value of an investment. Average maturity is the average length of time until fixed-income securities held by a fund reach maturity and will be repaid, taking into consideration the possibility that the issuer may call a bond before its maturity date. In general, the longer the average maturity, the more a fund’s share price will fluctuate in response to changes in interest rates. As of June 30, 2019, the average maturity of holdings in each of the bond funds in which the Program’s assets are invested are as follows:

	<u>Average Maturity</u>
State Street Institutional US Government Money Market Fund	34 days
State Street Aggregate Bond Index Fund	7.9 years

Foreign Currency Risk

Certain mutual funds in which the Program invests may include in their asset holdings foreign debt and equity securities. There are certain inherent risks involved when investing in international securities that are not present with investments in domestic securities, such as foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention or delay of currency exchange due to foreign governmental laws or restrictions.



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 4: FEES AND EXPENSES

Each investment option has an annualized asset-based fee that is deducted from assets in each investment option. The annualized asset-based fee reduces the return participants earn on their investments in the Program. Each participant indirectly bears a pro-rata share of the annual costs and expenses associated with each investment option in which his or her assets are invested.

The annualized asset-based fee consists of the Program Administration Fee, the State Fee and the Underlying Fund Fee, as described below. These fees accrue daily and are factored into the net asset value of each investment option.

Program Administration Fee

The Program Administrator receives a fee as compensation for providing recordkeeping and administrative services to the Program. This fee, which is 0.75% of net position of each investment option, is paid from Program assets and is reflected as a reduction in fiduciary net position on the statement of changes in fiduciary net position.

State Fee

The Board receives a fee to be used to offset expenses related to establishment, oversight and administration of the Program. This fee, which is 0.05% of net position of each investment option, is paid from Program assets and is reflected as a reduction in fiduciary net position on the statement of changes in fiduciary net position.

Underlying Fund Fee

This fee includes investment advisory fees, administrative fees and other expenses of each underlying mutual fund in which Program assets are invested. The Underlying Fund Fee is paid out of the assets of the mutual fund, reducing the amount of income available for distribution to the Program, and is not paid from Program assets. As such, these fees are not reported on the statement of changes in fiduciary net position.

Fees paid from Program assets during the period from January 2, 2019 through June 30, 2019 are as follows:

Program administration fee	\$ 643
State fee	45
	<hr/>
Total fees	<u>\$ 688</u>



(A Private Purpose Trust Fund of the State of California)

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

NOTE 5: CONTINGENCIES

Howard Jarvis Taxpayers Association (HJTA) Litigation – HJTA filed a complaint in federal court (Eastern District of California) in May 2018 claiming that the Program is preempted by ERISA and is an ERISA plan, subject to all the requirements of an ERISA plan. A separate claim is a state-based claim asserting that the Program is a waste of taxpayer dollars. The First Motion to Dismiss by CalSavers was granted in March 2019 but HJTA was given leave to amend their Complaint, which they did in April 2019. CalSavers then submitted a Second Motion to Dismiss in May 2019. In September 2019, the United States Department of Justice submitted a Statement of Interest in support of HJTA’s position that the Program is preempted by ERISA. As of this writing, the District Court has not yet ruled on the Second Motion to Dismiss. The District Court decision could affect CalSavers. However, since any decision is likely to be appealed, a final determination on whether the Program is preempted may not be made for some time.

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**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***

Members of the California Secure Choice Retirement Savings Investment Board
Ascensus College Savings Recordkeeping Services, LLC, Program Administrator
CalSavers Retirement Savings Program

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 financial statements of the **CalSavers Retirement Savings Program**, also known as **CalSavers** (the Program), as of June 30, 2019 and for the period from January 2, 2019 through June 30, 2019, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated December 13, 2019, except as explained in the following paragraph.

Our audit procedures were not designed to test the accuracy or completeness of employee contribution amounts, and we did not perform any procedures to obtain an understanding of internal control over the calculation and remittance of employee contributions at any participating employer. In addition, we did not perform testing of employer compliance with relevant provisions of the California Secure Choice Retirement Savings Trust Act (the Act). These matters are explained in our independent auditor's report as the basis for our qualified opinion.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Program'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program'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.

Members of the California Secure Choice Retirement Savings Investment Board
Ascensus College Savings Recordkeeping Services, LLC, Program Administrator
CalSavers Retirement Savings Program

Internal Control Over Financial Reporting (Continued)

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 Program'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 Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Landmark PLC
Certified Public Accountants

December 13, 2019
Little Rock, Arkansas