

**CALSAVERS RETIREMENT
SAVINGS PROGRAM
ADMINISTRATIVE FUND**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2019**

**CALSAVERS RETIREMENT SAVINGS PROGRAM
ADMINISTRATIVE FUND**

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INDEPENDENT AUDITOR'S REPORT

**California Secure Choice Retirement
Savings Investment Board
Sacramento, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the CalSavers Retirement Savings Program Administrative Fund (the Administrative Fund) of the State of California, as of and for the year ended June 30, 2019, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CalSavers Retirement Savings Program Administrative Fund of the State of California, as of June 30, 2019, and the change in financial position and its cash flows 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 CalSavers Retirement Savings Program Administrative Fund and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2019, and the changes in its financial position 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.

Gilbert CPAs

**GILBERT CPAs
Sacramento, California**

May 26, 2020

**CALSAVERS RETIREMENT SAVINGS PROGRAM
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**BALANCE SHEET
JUNE 30, 2019**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents in State Treasury	\$ 13,707,511
Accounts receivable	13
Due from other funds	81,340
Capital assets, net	<u>3,226</u>
Total assets	<u>13,792,090</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflows related to OPEB	66,000
Deferred outflows related to pensions	<u>1,067,139</u>
Total deferred outflows of resources	<u>1,133,139</u>

TOTAL ASSETS AND DEFERRED OUTFLOWS \$ 14,925,229

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 83,360
Due to other funds	2,430
Loan payable - SMIF (SB 84)	<u>7,697</u>
Total current liabilities	<u>93,487</u>

NONCURRENT LIABILITIES:

Accrued vacation	70,686
Loan payable - SMIF (SB 84)	4,303
Loan payable - General Fund	16,900,000
Net OPEB Liability	1,597,000
Net Pension Liability	<u>1,051,392</u>
Total noncurrent liabilities	<u>19,623,381</u>
Total liabilities	<u>19,716,868</u>

DEFERRED INFLOWS OF RESOURCES:

Deferred inflows related to OPEB	303,000
Deferred inflows related to pensions	<u>42,184</u>
Total deferred inflows of resources	<u>345,184</u>

NET POSITION:

Net investment in capital assets	3,226
Unrestricted	<u>(5,140,049)</u>
Total net position	<u>(5,136,823)</u>

TOTAL LIABILITIES AND NET POSITION \$ 14,925,229

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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

OPERATING REVENUES:	
Fees revenue	<u>\$ 45</u>
OPERATING EXPENSES:	
Salaries and wages	545,380
Benefits	2,294,624
Consultants and professional services	601,215
Travel	43,576
Facilities operation	68,894
General expenses	35,029
Communications	4,867
Printing	8,776
Depreciation expense	<u>1,076</u>
Total operating expenses	<u>3,603,437</u>
OPERATING LOSS	(3,603,392)
NON-OPERATING REVENUE:	
Interest income	304,912
Transfers in from other funds	<u>(1,893,603)</u>
Total non-operating revenues	<u>(1,588,691)</u>
CHANGE IN NET POSITION	(5,192,083)
NET POSITION, Beginning of Year	<u>55,260</u>
NET POSITION (deficit), End of Year	<u><u>\$ (5,136,823)</u></u>

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**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from fees	\$ 45
Payments to employees	(835,525)
Payments to suppliers	(765,757)
Payments for interfund services used	(67,186)
Net cash used by operating activities	<u>(1,668,423)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers in	<u>3,665</u>
Net cash provided by noncapital financing activities	<u>3,665</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest receipts from Surplus Money Investment Fund	<u>251,066</u>
Net cash provided by investing activities	<u>251,066</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,413,692)
BEGINNING CASH AND CASH EQUIVALENTS	<u>15,121,203</u>
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 13,707,511</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (3,603,392)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATIONS:	
Depreciation expense	1,076
(Increase) decrease in:	
Accounts receivable	1,708
Deferred outflows related to OPEB	(66,000)
Deferred outflows related to pensions	(938,566)
Increase (decrease) in:	
Accounts payable	(72,294)
Due to other funds	(1,407)
Accrued vacation	16,876
OPEB obligation	1,597,000
Net pension liability	1,051,392
Deferred inflows related to OPEB	303,000
Deferred inflows related to pensions	42,184
Net cash used by operating activities	<u><u>\$ (1,668,423)</u></u>
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:	
Transfer of loan from Program Fund	<u><u>\$ 1,900,000</u></u>

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

1. REPORTING ENTITY

The California Secure Choice Retirement Savings Investment Board (“Board”) was created by Senate Bill number 1234, first enacted in September 2012. The final legislation authorizing the Board’s programmatic work was enacted in September 2016 and took effect January 1, 2017. The Board is the administrator of the CalSavers Retirement Savings Program (“CalSavers Program,” formerly the Secure Choice Retirement Savings Program) and the State agency responsible for the administration of the California Secure Choice Retirement Savings Trust (“Trust”). The Board consists of nine-members, with the California State Treasurer serving as the Chair.

Statute requires that all private sector employers with five or more employees that do not offer a payroll deduction retirement savings vehicle either begin offering one or provide their employees access to the CalSavers Program by their deadline. Deadlines for employer compliance vary based on the number of employees. Under this California State mandate, employers would be exempt from the Employee Retirement Income Security Act (ERISA), enabling their employees participation through payroll contributions into a Roth or traditional IRA. Furthermore any mandated employer may choose to have a payroll deposit retirement savings arrangement to allow employee participation in the CalSavers Program.

In 2015, with the aid of philanthropic funds raised from private sources in 2013 and 2014, the Board hired consultants to conduct a mandated feasibility study. With the feasibility study complete in early 2016 and the final authorizing legislation passed in September 2016, the Board used the remaining donated funds to begin operations in 2017. The California Law that formed the Trust directs the Board to segregate moneys received into two funds, the Program Fund and the Administrative Fund. These financial statements present the financial information on the activities of the Administrative Fund, which was established July 1, 2017. In future fiscal years, the Program Fund may make transfers to the Administrative Fund for the purpose of paying operating costs associated with administering the Trust, board operations, program administrator and investment expenses, and enforcement and compliance costs. Additionally, per legislation, after six years from the date the CalSavers Program is implemented, expenditures from the Administrative Fund shall not exceed more than one percent of the total Program Fund. All costs of administration for the Trust will be paid out of the Administrative Fund in future fiscal years.

The CalSavers Program contracts with the California State Treasurer’s Office to provide administrative support including, but not limited to accounting, budgets, data processing, personnel, legal, and business services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Administrative Fund conform to generally accepted accounting principles as applicable to governments. The following is a summary of significant accounting policies:

A. BASIS OF ACCOUNTING/ FUND ACCOUNTING

The Administrative Fund is a public instrumentality of the State of California and is treated as an Enterprise Fund. The accrual basis of accounting is utilized whereby revenues are recorded when earned and expenses are recognized in the accounting period in which the liability is incurred (when

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goods are received or services rendered). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As a governmental entity, the Administrative Fund follows the accounting standard hierarchy established by the GASB.

B. CAPITAL ASSETS AND DEPRECIATION

Capital assets are defined as assets with a useful life of at least one year and a unit acquisition cost of at least \$5,000. Equipment is depreciated using the straight-line method over five years.

C. INTERFUND TRANSACTIONS

The following schedule summarizes the amounts due to/from other funds for the Administrative Fund at June 30, 2019:

<u>Due From (Due To)</u>	<u>Description</u>	
SMIF	Interest income	\$ 78,608
General Fund	Miscellaneous	(317)
Services Revolving Fund	Administrative support	(543)
SCIF	Miscellaneous	(667)
SMIF	SB 84 interest payable	(303)
Federal Government	Miscellaneous	(600)
CalSavers Program Fund	Operating transfers	<u>2,732</u>
Net Due From (To) other funds		<u>\$ 78,910</u>

The amount due from SMIF represents unpaid interest earned by the CalSavers Program. The amount due to other funds represents expenses paid by other funds within the State of California on behalf of the CalSavers Program. As of June 30, 2019, the due from and due to balances are considered short-term and will be paid within a year after the fiscal year end.

D. PENSION

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Administrative Fund's portion of the California Public Employees' Retirement System (CalPERS) Miscellaneous plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

E. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Administrative Fund's portion of the State Substantive Plan (OPEB Plan) and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

F. REVENUES

The Administrative Fund earns interest on its funds pooled with the State of California's Surplus Money Investment Fund. The Administrative Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the administration of trust activities.

G. VACATION AND SICK LEAVE

The accrued liability for the vacation compensation is recognized as an expense and liability in the Administrative Fund's financial statements. Additionally, accumulated sick-leave balances are not recorded as compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

H. RISK MANAGEMENT

The CalSavers Program is part of the State of California, which is primarily self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs or it becomes fixed and determinable. The CalSavers Program has not had any claims subject to this coverage. Additional disclosure details required by the Governmental Accounting Standards Board regarding risk management are presented in the basic financial statements of the State of California.

I. USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

3. CASH AND CASH EQUIVALENTS IN STATE TREASURY

The Administrative Fund considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents in the State Treasury at June 30, 2019 consist of the following:

Deposits in Surplus Money Investment Fund	\$ 13,700,000
Revolving Fund Cash	6,610
Cash in State Treasury	<u>901</u>
Cash and cash equivalents in State Treasury	<u>\$ 13,707,511</u>

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The investments must be allowable through the Pooled Money Investment Account (PMIA), which is operated by the State Treasurer's Office, which is granted the authority by California Government Code Sections 16430 and 16480.4. Allowable investments are as follows:

- U.S. government securities
- Securities of federally-sponsored agencies
- Domestic corporate bonds
- Interest-bearing time deposits in California banks
- Savings and loan associations and credit unions
- Prime-rated commercial paper
- Repurchase and reverse repurchase agreements
- Security Loans
- Banker's Acceptances
- Negotiable certificates of deposits
- Loans to various bond funds

The CalSavers Program invests excess cash funds in the Surplus Money Investment Fund (SMIF). All of the resources of SMIF are invested through PMIA. The PMIA investment program is designated by the Pooled Money Investment Board and is administered by the office of the State Treasurer.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 3, No. 31, No. 40, and No. 72 regarding cash deposits and investments in State Treasury, including disclosures related to interest rate risk, credit risk, custodial credit risk, and concentration of credit risk, are presented in the financial statements of the State of California.

4. CAPITAL ASSETS

Capital asset activity in the Administrative Fund for the year ended June 30, 2019 was as follows:

	Balance			Balance
	<u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>
Capital assets, being depreciated:				
Equipment	\$ 5,377			\$ 5,377
Less accumulated depreciation for:				
Equipment	<u>(1,075)</u>	<u>\$ (1,076)</u>		<u>(2,151)</u>
Total capital assets, being depreciated	<u>\$ 4,302</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3,226</u>

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5. ACCRUED VACATION

CalSavers Program employees are granted vacation and sick leave in varying amounts, depending upon the employee. These hours are accrued for all employees on the basis of monthly payrolls. Upon separation, employees are paid for accumulated vacation days up to specified limits. Accrued vacation and sick leave follow State employees from agency to agency and are not necessarily earned since the inception of the Program. Accrued vacation activity in the Administrative Fund for the year ended June 30, 2019, was as follows:

	Balance	Additions	Reductions	Balance
	June 30, 2018			June 30, 2019
Accrued vacation	\$ 53,810	\$ 67,838	\$ (50,962)	\$ 70,686

6. RETIREMENT PLAN

All eligible Administrative Fund employees participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's (State) Comprehensive Annual Financial Report as a fiduciary component unit. CalPERS administers the Public Employees' Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit retirement plan. Funds, departments and agencies within the State, including CalSavers, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State funds/agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

The significant actuarial assumptions used to compute the actuarially determined State contribution requirements are the same as those used to compute the State pension benefit obligation as defined by CalPERS. The State charges the Administrative Fund for its share of the required contributions. For the year ended June 30, 2019, the contributions recognized as part of pension expense was \$154,831.

In addition to the Administrative Fund's contributions to the plan, during the year ended June 30, 2018, the State Surplus Money Investment Fund (SMIF) made a contribution to the Plan of \$12,000, on behalf of the Administrative Fund, as required by Senate Bill No. 84 (SB 84) to fund future Net Pension Liabilities. The Administrative Fund established an Interfund Loan Payable to SMIF for this contribution as required by SB 84. This Interfund Loan Payable, is required to be repaid by June 30, 2030. The outstanding balance on the loan payable as of June 30, 2019 was \$12,000.

Generally, full-time and permanent part-time employees are eligible to participate in CalPERS. The benefits for the Plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five or ten years of credited service.

The Administrative Fund's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The Administrative Fund's proportion of the net pension liability was based on the State Controller's Office

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(SCO) projection for the Administrative Fund. The SCO identified a total of 29 entities that are reported in the State’s CAFR which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related organizations, that have State employees with pensionable compensation (covered payroll). The SCO calculated and provided these funds/organizations with their allocated pensionable compensation percentages by plan. The Administrative Fund’s proportionate share of the net pension liability for the Plan as of June 30, 2018 was 0.003347%.

As of June 30, 2019, the Administrative Fund reported net pension liabilities for its proportionate shares of the Plan’s net pension liability of \$1,051,392.

For the year ended June 30, 2019, the Administrative Fund recognized pension expense of \$309,842. At June 30, 2019, the Administrative Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 154,831	
Changes in assumptions	94,841	\$ (34,859)
Net differences between expected and actual experience	11,279	(7,325)
Change in proportional share	795,328	
Net differences between projected and actual earnings on plan investments	10,861	
Total	\$ 1,067,139	\$ (42,184)

\$154,831 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2020	\$ 324,849
2021	301,351
2022	225,151
2023	18,773

Additional disclosure detail required by Government Accounting Standards Board Statement No. 68, regarding the defined benefit plan are presented in the Comprehensive Annual Financial Report for the year ended June 30, 2018, which is the latest available on the State Controllers website at www.sco.ca.gov.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The State also provides postemployment medical and prescription drug benefits to employees and dependents through CalPERS under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT) administered by CalPERS, a substantive agent multiple-employer defined benefit other postemployment benefits plan (State's Substantive Plan). Assets within each valuation group benefit retirees and dependents associated with that valuation group. CalPERS reports on the CERBT as part of it separately issued annual financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

The State has identified 25 separate valuation groups within the State Substantive Plan. For each agency and/or fund, the SCO determined the proportion of OPEB employer contributions attributable to employees within those valuation groups. SCO then used these proportions to allocate the OPEB accounting elements from the June 30, 2018 State of California Retiree Health Benefits Program Actuarial Valuation Report to State agencies and their funds.

The Administrative Fund participates in the State's Substantive Plan on a cost sharing basis. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis. The Administrative Fund recognizes the costs of providing health and dental insurance to annuitants based on their required contribution. Contributions to the State's Substantive Plan from the Administrative Fund were \$63,000 for the year ended June 30, 2019.

At June 30, 2019, the Administrative Fund reported a liability of \$1,597,000 for their proportionate share of the State's Substantive Plan net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The Administrative Fund's proportion of the net OPEB liability was based on the SCO's projection. The Administrative Fund's combined proportionate share, based on its attributable employee valuation groups OPEB employer contributions, as of June 30, 2018 was 0.0034490%.

For the fiscal year ended June 30, 2019, Administrative Fund recognized OPEB expense of \$1,834,000. At June 30, 2019, Administrative Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions		\$ (183,000)
Difference in PAY GO contributions	\$ 3,000	
Differences between expected and actual experience		(120,000)
OPEB contributions subsequent to measurement date	63,000	
Total	\$ 66,000	\$ (303,000)

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The \$63,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows or resources and deferred inflows of resources related to OPEB will be recognized in the Administrative Fund's OPEB expense as follows:

Fiscal Year Ended June 30	
2020	\$ (55,900)
2021	(53,900)
2022	(52,900)
2023	(52,900)
2024	(51,300)
2025	(33,100)

Additional disclosure detail required by Government Accounting Standards Board Statement No. 75, regarding post-retirement benefits are presented in the financial statements of the State of California, on the State Controller's website at www.sco.ca.gov.

8. LOANS PAYABLE – GENERAL FUND

During the June 30, 2017 fiscal year, the CalSavers Program received a loan from the State of California's General Fund in the amount of \$1,900,000, which was recorded to the Program Fund. Per Senate Bill number 1234, this loan is appropriated for funding startup and first-year administrative costs of the CalSavers Program. The CalSavers Program shall repay the loan by June 30, 2022, with interest calculated at the rate earned by the PMIA at the time of the transfer. The loan was initially recorded to the Program Fund, however, during 2019, it was determined that the Program Fund met the criteria of a special purpose trust fund and as a result, the loan was transferred to the Administrative Fund.

During the June 30, 2018 fiscal year, the Administrative Fund of the CalSavers Program received a loan from the State of California's General Fund in the amount of \$15,000,000. Per Senate Bill number 72, this loan is appropriated for funding startup and administrative costs of the CalSavers Program. The CalSavers Program shall repay the loan by June 30, 2023, with interest calculated at the rate earned by the PMIA at the time of the transfer.

9. COMMITMENTS AND CONTINGENCIES

The CalSavers Program has been named in a piece of outstanding litigation. However, based on consultation with legal counsel, management believes that the ultimate resolution of this matter will not have a material adverse effect on the Program Fund's results of operations.