

**CALSAVERS RETIREMENT
SAVINGS PROGRAM**

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

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

CALSAVERS RETIREMENT SAVINGS PROGRAM

TABLE OF CONTENTS JUNE 30, 2018

	<u>PAGE</u>
FINANCIAL STATEMENTS	
Independent Auditor's Report	1
Administrative Fund – Proprietary Fund:	
Balance Sheet	3
Statement of Revenues, Expenses, and Changes in Fund Net Position	4
Statement of Cash Flows	5
Program Fund – Governmental Fund:	
Balance Sheet	6
Statement of Revenues, Expenditures, and Changes in Fund Balance	7
Notes to Financial Statements	8

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, Program Fund and Administrative Fund (CalSavers Program), a program of the State of California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the CalSavers Program 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 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 respective financial position of the CalSavers Program of the State of California as of June 30, 2018, 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 of the CalSavers Program are intended to present the financial position, and the change in financial position of the CalSavers Program of the State of California that is attributable to the transactions of the CalSavers Program. They do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2018, 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 Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

December 31, 2018

**CALSAVERS RETIREMENT SAVINGS PROGRAM
ADMINISTRATIVE FUND**

**BALANCE SHEET
PROPRIETARY FUND
JUNE 30, 2018**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents in State Treasury	\$ 15,121,203
Accounts receivable	1,721
Due from other funds	24,762
Capital assets, net	<u>4,302</u>
Total assets	<u>15,151,988</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred outflows related to contributions made subsequent to measurement date	<u>128,573</u>
--	----------------

TOTAL ASSETS AND DEFERRED OUTFLOWS \$ 15,280,561

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 155,654
Due to other funds	<u>3,837</u>
Total current liabilities	<u>159,491</u>

NONCURRENT LIABILITIES:

Accrued vacation	53,810
Loan payable - General Fund	15,000,000
Loan payable - Surplus Money Investment Fund	<u>12,000</u>
Total noncurrent liabilities	<u>15,065,810</u>

Total liabilities 15,225,301

NET POSITION:

Net investment in capital assets	4,302
Unrestricted	<u>50,958</u>
Total net position	<u>55,260</u>

TOTAL LIABILITIES AND NET POSITION \$ 15,280,561

**CALSAVERS RETIREMENT SAVINGS PROGRAM
ADMINISTRATIVE FUND**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

OPERATING EXPENSES:

Salaries, wages, and benefits	\$ 570,711
Consultants and professional services	981,550
Travel	13,967
Facilities operation	40,451
General expenses	22,878
Communications	4,023
Printing	1,518
Depreciation expense	<u>1,075</u>

Total operating expenses 1,636,173

OPERATING LOSS (1,636,173)

NON-OPERATING REVENUE:

Interest income	29,240
Transfers in from other funds	<u>1,662,193</u>
Total non-operating revenues	<u>1,691,433</u>

CHANGE IN NET POSITION 55,260

NET POSITION, Beginning of Year _____

NET POSITION, End of Year \$ 55,260

**CALSAVERS RETIREMENT SAVINGS PROGRAM
PROGRAM FUND**

**BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2018**

ASSETS:

Cash and investments in State Treasury	\$ 3,665
Due from other funds	<u>2,695</u>
Total Assets	<u>\$ 6,360</u>

LIABILITIES:

Loan payable - General Fund	<u>\$ 1,900,000</u>
-----------------------------	---------------------

FUND BALANCE:

Unassigned	<u>(1,893,640)</u>
Total liabilities and fund balance	<u>\$ 6,360</u>

**CALSAVERS RETIREMENT SAVINGS PROGRAM
PROGRAM FUND**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

REVENUES:

Investment and interest	<u>\$ 38,565</u>
-------------------------	------------------

EXPENDITURES:

General expenses	<u>6,184</u>
------------------	--------------

Operating income	32,381
------------------	--------

NON OPERATING EXPENSE:

Transfers Out to Other Funds	<u>(1,662,193)</u>
------------------------------	--------------------

CHANGE IN FUND BALANCE

(1,629,812)

FUND BALANCE:

Beginning of the Year	<u>(263,828)</u>
-----------------------	------------------

End of the Year	<u>\$ (1,893,640)</u>
-----------------	-----------------------

CALSAVERS RETIREMENT SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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. 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, after the CalSavers Program is open for enrollment, 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. As of June 30, 2018, the CalSavers Program was under development and had no investment options or participants in the Trust. 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 both funds. The Administrative Fund 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 CalSavers Program conform to generally accepted accounting principles as applicable to governments. The following is a summary of significant accounting policies:

A. FUND ACCOUNTING

The accounts of the CalSavers Program are maintained in accordance with the principles of fund accounting under standards issued by the Governmental Accounting Standards Board (GASB). Fund accounting is the procedure by which resources for various programs are classified for accounting and reporting into funds established in accordance with their nature and purpose. The operations of

CALSAVERS RETIREMENT SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

the CalSavers Program are accounted for in two separate funds with separate set of self-balancing accounts that comprise its assets, liabilities, net position, fund balance, revenues, expenses, and expenditures. The CalSavers Program's two funds are the Program Fund, a special revenue fund, and the Administrative Fund, an enterprise fund.

The California State Controller's Office anticipates changing the Program Fund from a special revenue fund to a private purpose trust fund at the point the fund begins receiving contributions to be held in trust. This is anticipated to occur during the fiscal year ending June 30, 2019.

B. BASIS OF ACCOUNTING/ FUND FINANCIAL STATEMENTS

Basis of accounting refers to when revenues and expenses, are recognized in the accounts and reported in the financial statements.

The Administrative Fund's financial statements are accounted for using the economic resources measurement focus or the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

The Program Fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

C. 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.

D. RETIREMENT PLAN

All eligible CalSavers Program employees participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's (State) Comprehensive Annual Financial Report. 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 the CalSavers Program, 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.

CALSAVERS RETIREMENT SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The State charges the CalSavers Program for its share of required contributions to the PERF. For the year ended June 30, 2018, the Administrative Fund was charged \$116,573 for its share of the CalPERS contribution. Since the Administrative Fund was not established until July 1, 2017 and the plans measurement date is June 30, 2017, the CalSavers Program has not been allocated a portion of the Net Pension Liability in PERF as of June 30, 2018. Additionally, contributions of \$116,573 made during the year ended June 30, 2018 have been deferred as contributions made subsequent to measurement date. These contributions will be recognized as an expense and a Net Pension Liability will be recorded in the Administrative Fund during the June 30, 2019 fiscal year end.

During the fiscal year ended June 30, 2018, the Administrative Fund was loaned \$12,000 from the State's Surplus Money Investment Fund for its SB 84 supplemental employer allocation to fund future Net Pension Liabilities. This amount is reflected as a deferred outflow of resources related to contributions subsequent to measurement date on the balance sheet and will be recognized as a reduction to the CalSavers Programs Net Pension Liabilities in future years.

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 of the State of California, which is available on the State Controllers website at www.sco.ca.gov.

E. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The State of California provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer. A portion of the State's post-retirement benefit costs are attributable to the employees of the CalSavers Program. Since the Administrative Fund was not established until July 1, 2017, the State has not allocated a portion of its Net OPEB Liability as of June 30, 2018. It is anticipated, that the Administrative Fund will record a Net OPEB Liabilities in future years.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 75, regarding post-retirement benefits are presented in the Comprehensive Annual Financial Report of the State of California, which is available on the State Controllers website at www.sco.ca.gov.

F. 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

G. 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.

CALSAVERS RETIREMENT SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

H. 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 INVESTMENTS IN STATE TREASURY

The CalSavers Program's cash and investments at June 30, 2018 consist of the following:

	<u>Administrative Fund</u>	<u>Program Fund</u>
Deposits in Surplus Money Investment Fund	\$ 15,111,000	\$ 3,000
Revolving Fund Cash	10,000	
Cash in State Treasury	<u>203</u>	<u>665</u>
Cash and investments in State Treasury	<u>\$ 15,121,203</u>	<u>\$ 3,665</u>

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.

CALSAVERS RETIREMENT SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

4. CAPITAL ASSETS

Capital asset activity in the Administrative Fund for the year ended June 30, 2018 was as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>
Capital assets, being depreciated:				
Equipment		\$ 5,377		\$ 5,377
Less accumulated depreciation for:				
Equipment		(1,075)		(1,075)
Total capital assets, being depreciated	<u>\$</u>	<u>\$ 4,302</u>	<u>\$</u>	<u>\$ 4,302</u>

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, 2018, was as follows:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>
Accrued vacation	<u>\$</u>	<u>\$ 53,810</u>	<u>\$</u>	<u>\$ 53,810</u>

6. INTERFUND PAYABLES AND RECEIVABLES

The following schedule summarizes the amounts due to/from other funds for the Administrative Fund at June 30, 2018:

<u>Due From (Due To)</u>	<u>Description</u>	
SMIF	Interest income	\$ 24,762
General Fund	Miscellaneous	(6)
Services Revolving Fund	Administrative support	(129)
Employment Development Dept	Data sharing services	(1,026)
CalSavers Program Fund	Reimbursement of expenditures	<u>(2,676)</u>
Net Due From (To) other funds		<u>\$ 20,925</u>

CALSAVERS RETIREMENT SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The following schedule summarizes the amounts due from other funds for the Program Fund at June 30, 2018:

<u>Due From</u>	<u>Description</u>	
SMIF	Interest income	\$ 19
CalSavers Admin Fund	Reimbursement of expenditures	<u>2,676</u>
Net Due From (To) other funds		<u>\$ 2,695</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, 2018, the due from and due to balances are considered short-term and will be paid within a year after the fiscal year end.

7. 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. 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.

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.

8. 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.

9. SUBSEQUENT EVENTS

In the fiscal year ending June 30, 2019, the CalSavers Program entered into two significant agreements for the operation of their Program Fund. Ascensus College Savings Recordkeeping Services, LLC will provide administrative services, and State Street Global Advisors Trust Company will provide investment management services.