



# California State Teachers' Retirement System

**Audits and Risk Management Committee  
Annual Independent Financial Statement Audits**

**November 2, 2023**

# Agenda

## **1 – Crowe Engagement Team and Presenters**

## **2 – CalSTRS Financial Statement Audit**

- Independent Auditor's Report
- Required Communications to Those Charged with Governance
- 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

## **3 – Audit of Other Pension Information**

- Independent Auditor's Reports
- Required Communications to Those Charged with Governance
- Independent Auditor's Reports 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

## **4 – Questions and Discussion**

# Crowe Engagement Team and Presenters



**Kevin W. Smith, CPA**  
Audit Partner



**Jen Aras, CPA**  
Audit Partner



**Dan O'Malley, CPA**  
Audit Senior Manager

# California State Teachers' Retirement System

## Basic Financial Statements

1

Independent Auditor's  
Report

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Required  
Communications to  
Those Charged with  
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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*

# Overview

## Independent Auditor's Report

### **Audit of the California State Teachers' Retirement System as of and for the year ended June 30, 2023**

- Management's responsibility
- Auditor's responsibility
- Unmodified opinion issued on the System's financial statements
- Emphasis of Matters paragraphs

## Required Communications to Those Charged with Governance

### **Communication of matters related to our audit of the financial statements of the California State Teachers' Retirement System**

- Auditor's Responsibilities under GAAS and GAGAS
- Planned Scope and Timing of the Audit
- Auditor's Judgments about Qualitative Aspects of Significant Accounting Practices
- Corrected Misstatements
- Uncorrected Misstatements
- Other Communications

## Independent Auditor's Report on Internal Controls over Financial Reporting

### **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**

- We do not express an opinion on internal controls
- Consideration of internal controls is for a limited purpose
- No findings identified

# Independent Auditor's Report – Opinion

Independent Auditor's Report

Required Communications to Those Charged with Governance

Independent Auditor's Report on Internal Controls over Financial Reporting

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## *Opinion*

We have audited the financial statements of the California State Teachers' Retirement System ("System" or "CalSTRS"), a component unit of the State of California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the California State Teachers' Retirement System, as of June 30, 2023, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

# Independent Auditor's Report – Emphasis of Matters

## Independent Auditor's Report

## Required Communications to Those Charged with Governance

## Independent Auditor's Report on Internal Controls over Financial Reporting

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### Emphasis of Matters

#### Net Pension Liability of Employers and Nonemployer Contributing Entity

As discussed in Note 3, based on the most recent actuarial valuation as of June 30, 2022, the System's independent actuaries determined that, at June 30, 2023, the value of the State Teachers' Retirement Plan (STRP) total pension liability exceeded the STRP fiduciary net position by \$76.2 billion. The actuarial valuation is sensitive to the underlying actuarial assumptions, including investment rate of return of 7.10%, consumer price inflation of 2.75%, wage growth of 3.5% and custom mortality tables based on CalSTRS most recent Experience Analysis. Our opinion is not modified with respect to this matter.

### Components of the NPL – STRP

(dollars in millions)

Total pension liability	\$393,080
Less: STRP fiduciary net position	316,919
<b>NPL of employers and the State of California</b>	<b>\$76,161</b>
STRP fiduciary net position as a % of the total pension liability	80.6%

### Actuarial methods and assumptions

The total pension liability for the STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2022, and rolling forward the total pension liability to June 30, 2023. Significant actuarial methods and assumptions used in the financial reporting actuarial valuation to determine the total pension liability as of June 30, 2023, include:

Valuation date	June 30, 2022
Experience study	July 1, 2015–June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return <sup>1</sup>	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%
Postretirement benefit increases	2% simple for DB (annually) Maintain 85% purchasing power level for DB, not applicable for DBS/CBB

<sup>1</sup> Net of investment expenses but gross of administrative expenses.

# Independent Auditor's Report – Emphasis of Matters

Independent Auditor's Report

Required Communications to Those Charged with Governance

Independent Auditor's Report on Internal Controls over Financial Reporting

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## *Fair Value of Investments*

As discussed in Note 5 and 6, the financial statements include investments valued at approximately \$139.3 billion as of June 20, 2023, for which fair value has been estimated by general partners and investment advisors, and reviewed and approved by the System's management, in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, the estimated of values may differ from the values that would have been used had a ready market existed for the investment securities, and the differences could be material. Our opinion is not modified with respect to this matter.

<b>Alternative investments</b>						
Debt-privately held	10,355,677	–	–	–	–	10,355,677
Equity-privately held	82,375,483	–	–	–	–	82,375,483
Real estate-directly held	32,224,894	–	–	–	–	32,224,894
Real estate-non-directly held	14,335,721	–	–	–	–	14,335,721
<b>Total alternative investments</b>	<b>139,291,775</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>139,291,775</b>



# Independent Auditor's Report – Management's Responsibility

Independent Auditor's Report

Required Communications to Those Charged with Governance

Independent Auditor's Report on Internal Controls over Financial Reporting

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## ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

# Independent Auditor's Report – Auditor's Responsibility

## Independent Auditor's Report

## Required Communications to Those Charged with Governance

## Independent Auditor's Report on Internal Controls over Financial Reporting

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### *Auditor's Responsibility for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

# Required Communications to Those Charged with Governance

Independent Auditor's Report

Required Communications to Those Charged with Governance

Independent Auditor's Report on Internal Controls over Financial Reporting

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- Auditor's Responsibilities under GAAS and GAGAS
- Planned Scope and Timing of the Audit
  - Key considerations for FY 2022/2023
    - Existence and valuation of investments and derivative instruments
      - Actuarial assumptions: Total Pension Liability and Total OPEB Liability
    - Revenue recognition for contributions received under Senate Bill 90 and impact of Assembly Bill 84
      - Other matters that require special attention – impact of COVID-19 global pandemic
      - Impact of implementation of new pension administration system – not in scope of the audit
- Significant Accounting Policies and Management Judgments and Accounting Estimates

# Required Communications to Those Charged with Governance

Independent Auditor's Report

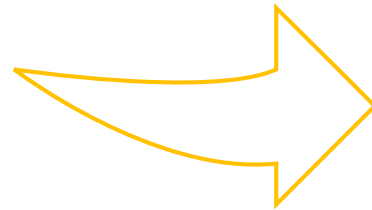
Required Communications to Those Charged with Governance

Independent Auditor's Report on Internal Controls over Financial Reporting

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Att. 2, Page 4-7

- Auditor's Judgments about Qualitative Aspects of Significant Accounting Practices
- Corrected Misstatements
- Uncorrected Misstatements
  - FV of alternative investments
- Other Communications

- Other Information in Documents Containing Audited Financial Statements
- Significant Difficulties Encountered During the Audit
- Disagreements with Management
- Consultations with Other Accountants
- Representations the Auditor is Requesting from Management
- Significant Issues Discussed, or Subject to Correspondence, with Management
- Significant Related Party Findings and Issues
- Other Findings or Issues We Find Relevant or Significant



# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Independent Auditor's Report

Required Communications to Those Charged with Governance

Independent Auditor's Report on Internal Controls over Financial Reporting

ARM Item 5a  
Attachment 3

- 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*
  - We obtain sufficient understanding of the entity and its environment, including internal controls, in order to plan the audit, but not to express an opinion on internal controls
  - Therefore, our consideration of internal control is for a limited purpose and is not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses
  - No significant deficiencies or material weaknesses identified

# California State Teachers' Retirement System

## Other Pension Information

1

Scope of  
Services

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Independent  
Auditor's Report -  
OPI

3

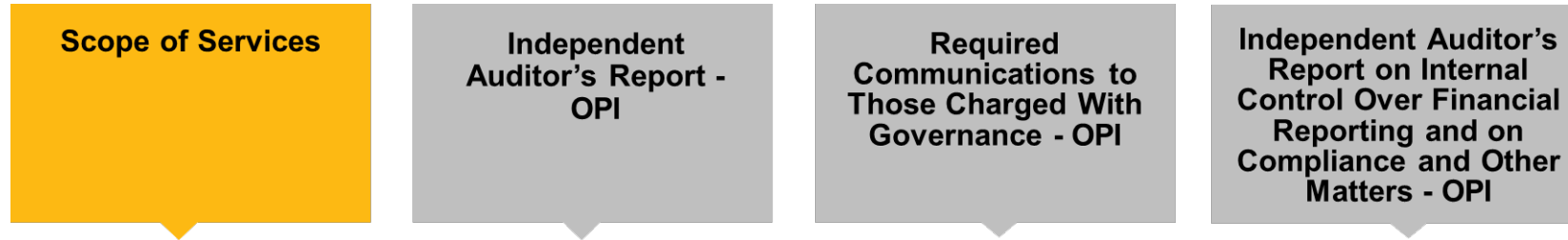
Required  
Communications to  
Those Charged with  
Governance - OPI

4

Independent Auditor's  
Report on Internal Control  
Over Financial Reporting  
and on Compliance and  
Other Matters Based - OPI

# Scope of Services

## Other Pension Information (OPI)



- Purpose of Other Pension Information
  - Not required by GAAP
  - Issued by management to assist contributing entities in determining amounts for their financial statements
  - Opinion provides evidence for other auditors

### ***Restriction on Use***

Our report is intended solely for the use and information of the California State Teachers' Retirement System, the California State Teachers' Retirement System's management, the governing body of the California State Teachers' Retirement System and the State Teachers' Retirement Plan employers and nonemployer contributing entity and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

# Scope of Services

## Other Pension Information (OPI) (continued)

Scope of Services

Independent Auditor's Report - OPI

Required Communications to Those Charged With Governance - OPI

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters - OPI

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### State Teachers' Retirement Plan

#### Schedule of proportionate share of contributions for employers and nonemployer contributing entity

For the fiscal year ended June 30, 2023

Schedule A (continued)

Employer reporting number	Employer name	CalSTRS-calculated employer contribution	Employer proportionate share of total CalSTRS-calculated employer contribution
	Total CalSTRS-calculated employer contributions	\$7,763,840,536	67.607%
	State of California contributions (nonemployer contributing entity) <sup>1</sup>	3,719,874,320	32.393%
	<b>Total employer and state contributions included in the proportionate share calculation</b>	<b>11,483,714,856</b>	<b>100.000%</b>
	Plus: Contributions for separately financed liabilities of individual employers <sup>2</sup>	8,167,893	
	Less: Employer contributions redirected to fund the Medicare Premium Payment Program	25,812,281	
	<b>Total employer and state contributions in the statement of changes in fiduciary net position<sup>3</sup></b>	<b>\$11,466,070,468</b>	



# Scope of Services

## Other Pension Information (OPI) – State Teachers’ Retirement Plan

Scope of Services

Independent Auditor’s Report - OPI

Required Communications to Those Charged With Governance - OPI

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters - OPI

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### State Teachers’ Retirement Plan

### Schedule of aggregate pension amounts for employers and nonemployer contributing entity

As of and for the year ended June 30, 2023

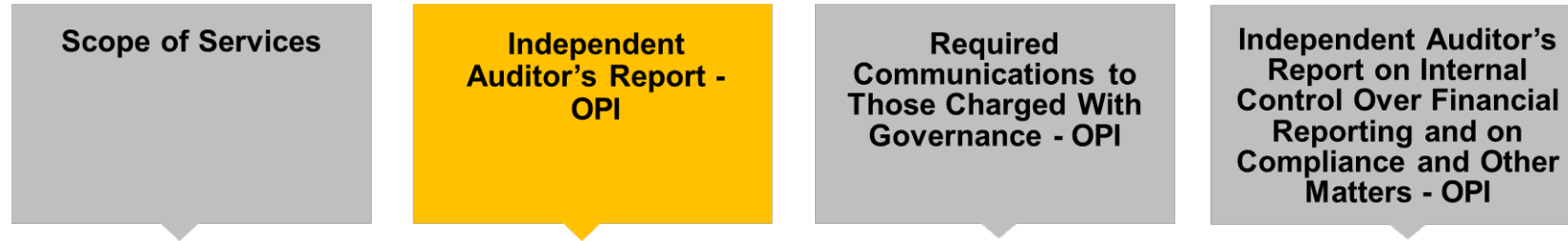
Schedule B<sup>1</sup>

(dollars in millions)

Change in net pension liability (NPL) recognized immediately in pension expense	
<b>Change in NPL</b>	
Total net pension liability as of June 30, 2023	\$76,161
Total net pension liability as of June 30, 2022	69,486
<b>Total change in NPL</b>	<b>6,675</b>

# Independent Auditor's Report

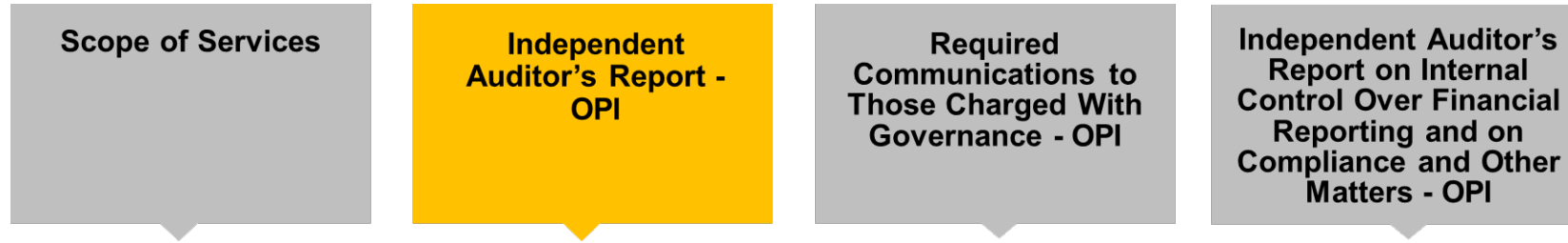
## Other Pension Information (OPI) (con't)



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- Audit of:
  - Schedule of Proportionate Share of Contributions for Employers and Nonemployer Contributing Entity of State Teachers' Retirement Plan for the year ended June 30, 2023
  - Total net pension liability as of June 30, 2023
  - Total deferred outflows of resources
  - Total deferred inflows of resources
- Performed in accordance with both GAAS and GAGAS
  - Unmodified opinions issued

# Independent Auditor's Report Other Pension Information (OPI)



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## ***Emphasis of Matter***

As discussed in Note 3, based on the most recent actuarial valuation as of June 30, 2022, the System's independent actuaries determined that, at June 30, 2023, the value of the State Teachers' Retirement Plan (STRP) total pension liability exceeded the STRP fiduciary net position by \$76.2 billion. The actuarial valuation is sensitive to the underlying actuarial assumptions, including investment rate of return of 7.10%, consumer price inflation of 2.75%, wage growth of 3.50% and custom mortality tables based on CalSTRS most recent Experience Analysis. Our opinions are not modified with respect to this matter.

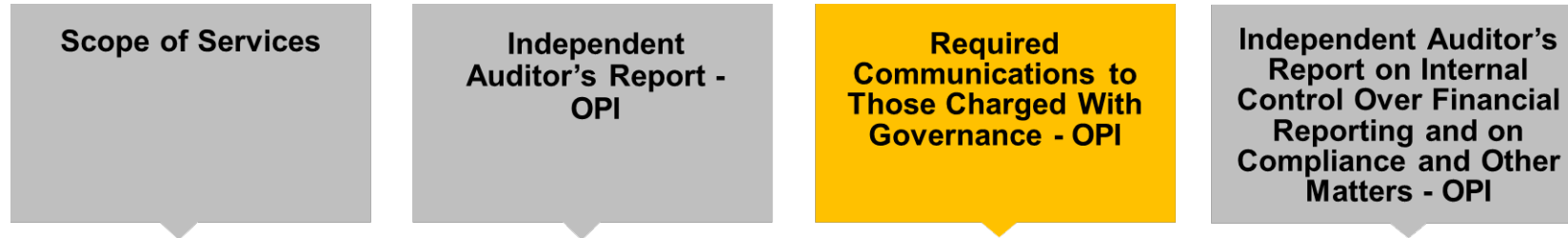
# Required Communications to Those Charged with Governance Other Pension Information (OPI) (con't)



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- Auditor's Responsibilities under GAAS and GAGAS
- Planned Scope and Timing of the Audits
- Significant Accounting Policies and Management Judgments and Accounting Estimates
  - Schedule of Proportionate Share of Contributions for Employers and Nonemployer Contributing Entity (SPS)
  - Net Pension Liability as of June 30, 2023
  - Revenue recognition policy for preparation of SPS including recognition of contributions under special legislation
  - Total deferred inflows of resources and total deferred outflows of resources per the Schedule of Aggregate Pension Amounts for Employers and Nonemployer Contributing Entity

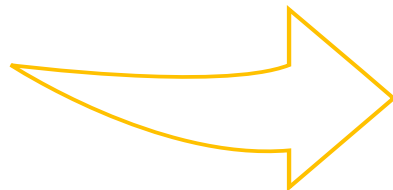
# Required Communications to Those Charged with Governance Other Pension Information (OPI)



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- Auditor's Judgments about Qualitative Aspects of Significant Accounting Practices
- Corrected Misstatements
- Uncorrected Misstatements
- Other Communications

- Other Information in Documents Containing Audited Financial Statements
- Significant Difficulties Encountered During the Audits
- Disagreements with Management
- Consultations with Other Accountants
- Representations the Auditor is Requesting from Management
- Significant Issues Discussed, or Subject to Correspondence, with Management
- Significant Related Party Findings and Issues
- Other Findings or Issues We Find Relevant or Significant



# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters – OPI



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Attachment 3

- 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*
  - We obtain sufficient understanding of the entity and its environment, including internal controls, in order to plan the audit, but not to express an opinion on internal controls
  - Therefore, our consideration of internal control is for a limited purpose and is not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses
  - No significant deficiencies or material weaknesses identified

# Questions & Discussion





# Thank You

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